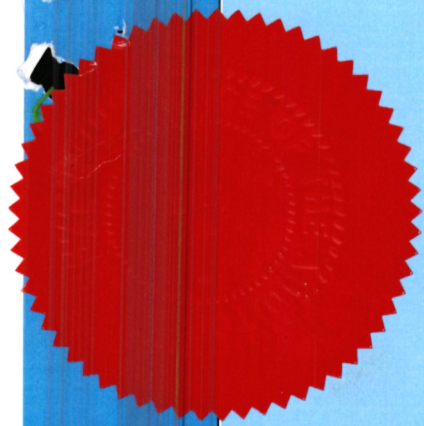

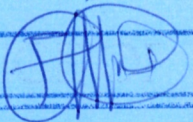


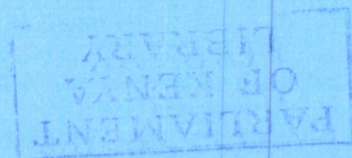
REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL



 THE NATIONAL ASSEMBLY PAPERS LAID	
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TABLED BY:	MAJORITY LEADER OF
CLERK AT THE TABLE:	



REPORT

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
KENYA INDUSTRIAL ESTATES LIMITED**

**FOR THE YEAR
ENDED 30 JUNE 2018**





KENYA INDUSTRIAL ESTATES LTD

REPORTS AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2018

Prepared in accordance with the Accrual Basis of Accounting Method under the International Financial Reporting Standards (IFRS)

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I. KEY INFORMATION OF KENYA INDUSTRIAL ESTATES LIMITED

Background information

Kenya Industrial Estates Ltd was established as a Limited liability Company under the Companies Act in 1967. At cabinet level, the company is represented by the Cabinet Secretary for Industry, Trade and Cooperatives, who is responsible for the general policy and strategic direction of the company. The entity is domiciled in Kenya.

Principal Activities

The principal activity of the company is to promote and facilitate industrialisation through the provision of credit facilities, business development services and incubation spaces.

Vision

The KIE Vision is “To be the Leader in Incubation of and Support Services to Micro, Small and Medium Enterprises in Kenya”.

Mission

The KIE Mission Statement is “To finance, provide industrial workspace and offer business advisory services to Micro, Small and Medium Enterprises (MSMES) in Kenya”

Core Values

The Company upholds the following values;

- (a) Professionalism,
- (b) Accountability
- (c) Innovativeness
- (d) Drive
- (e) Oneness
- (f) Social responsible (PAIDOS)

Directors

The Board of Directors is appointed in line with the Provisions of section 6 of the State Corporations Act (Chapter 446) Laws of Kenya.

The provisions of section 6 provide that the Board shall comprise of:

- a) A Chairman appointed by the President who shall be non-executive unless the President otherwise directs;
- b) The Chief Executive;
- c) The Principal Secretary of the Parent Ministry;
- d) The Principal Secretary to the National Treasury; and
- e) Not more than seven other members not being employees of the state corporation, of whom not more than three shall be public officers, appointed by the Cabinet Secretary.

Kenya Industrial Estates Limited

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The appointment is by name and by notice in the Gazette and is for a renewable period of three years or for such shorter period as may be specified in the notice.

The Directors who served the entity during the year/period were as follows:

No	Name	Position	Appointment date
1	Bob Karina	Director Acting Chairman	Appointed on the 02/10/2015 Appointed Acting Board Chairman on the 8 th May, 2017
2	Dr. Parmain ole Narika	Managing Director	Appointed on 5/9/2016
3	Geoffrey Mwitari	Alternate to the Principal Secretary, The National Treasury	Appointed on 14/10/2015
4	Hezekiah B. Okeyo	Alternate to the PS, State Department for Investment and Industry, Ministry of Industry, Trade and Cooperatives	Appointed on the 25/11/2016
5	Chebet Alaro Evelyne	Director	Appointed on the 02/10/2015
6	Opiyo Elsie Achieng	Director	Appointed on the 02/10/2015
7	Charles Kigen	Director	Appointed on the 02/10/2015
8	Lukas Kirui	Director	Appointed on the 02/10/2015

Kenya Industrial Estates Limited

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For the year ended June 30, 2018

Manager Legal Services

Charity Ndeke
P.O. Box 78029-00507
Nairobi5.

Registered Offices

KIE Building
Likoni/ Lusingeti road
P.O. Box 78029-00507
Nairobi, KENYA

Corporate Headquarters

P.O. Box 78029-00507
KIE Limited Building
Likoni/ Lusingeti Road
Nairobi, KENYA

Corporate Contacts

Telephone :(254) 6651348/53
E-mail: admin@kie.co.ke
Website: www.kie.co.ke

Corporate Bankers

1. National Bank of Kenya Ltd
Harambee Avenue
P.O. Box 72866-00200
Nairobi, Kenya
2. Kenya Commercial Bank Ltd
P.O Box 48400-00100
Nairobi, Kenya
3. Standard Chartered Bank Kenya Ltd
P.O Box 30001-00100
Nairobi, Kenya
4. Cooperative Bank of Kenya Ltd
P.O Box 48231-00100
Nairobi, Kenya

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Independent Auditors

Auditor General
Kenya National Audit Office
Anniversary Towers, University Way
P.O. Box 30084
GOP 00100
Nairobi, Kenya

Principal Legal Adviser

The Attorney General
State Law Office
Harambee Avenue
P.O. Box 40112
City Square 00200
Nairobi, Kenya

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II. THE BOARD OF DIRECTORS

 <p>1. Bob Karina Acting Chairman, Board of Directors</p>	<p>Bob Karina holds a Master of Science (MSc) in Corporate Finance from the University of Liverpool (UK). He is an accomplished stockbroker, an information technology professional and a successful businessman. He has broad experience in advising institutional and corporate investors, corporate finance consulting and research analysis. He is also the Chairman and Founder of Faida Investment Bank.</p> <p>He joined the Company on the 2nd October, 2015.</p>
 <p>2. Dr. Kamau Thugge Principal Secretary, National Treasury Alternate: Geoffrey Mwitari</p>	<p>Dr. Kamau Thugge is a distinguished economist with a PhD in Economics from Johns Hopkins University. Dr. Thugge has worked for mainly two organizations before his appointment to The National Treasury as the Principal Secretary. Dr. Thugge started his employment in the International Monetary Fund (IMF); he came back to the Ministry of Finance.</p>
 <p>3. Betty C. Maina, CBS Principal Secretary, State Department for Investment and Industry Alternate: Hezekiah B. Okeyo</p>	<p>Betty C. Maina, CBS is the Principal Secretary, State Department for Investment and Industry.</p> <p>She holds an MSc degree in Development Administration from the University College London and BA degree in Land Economics from the University of Nairobi.</p> <p>She is a seasoned professional with more than 20 years' experience in organisational leadership and development, engaged in policy analysis and influence. She is a proven and capable leader with ability to prepare and implement strategic business plans and mobilise the necessary resources for implementation. She is adept at policy analysis, communication and negotiation with decision makers at all levels.</p> <p>She joined the Ministry of Industry, Trade and Cooperatives on 24th January, 2018.</p>

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 <p>4. Dr. Parmain ole Narikae Managing Director</p>	<p>Dr. Parmain ole Narikae is the Managing Director. He holds Doctorate in Business Administration. He also holds an MBA and Bachelor of Science Degree in Business Administration (First class honors) from United States International University. He has wide experience as a career banker having served in senior leadership position as Chief Manager, General Manager and Executive Director in Co-operative Bank and Chase Bank. He is a member of the Institute of Directors.</p> <p>He joined on 5th September, 2016.</p>
 <p>5. Charles Kigen Director</p>	<p>Charles Kigen holds a Bachelor of Commerce degree in Management, an MBA in Strategic Management and an Advanced Diploma in Business Management all from CUEA. He has experience in formulating investment policies and identifying investment opportunities.</p> <p>He joined the Company on the 2nd October, 2015.</p>
 <p>6. Lucas Kirui Director</p>	<p>Lucas Kirui holds a Diploma in sales and Marketing and has experience in procurement management. He also has experience in Marketing and administration.</p> <p>He joined the Company on the 2nd October, 2015.</p>
 <p>7. Opiyo Elsie Achieng Director</p>	<p>Opiyo Elsie holds a Bachelor of Laws degree from Leeds Metropolitan University (UK) and an MA in international studies from the University of Sheffield (UK).</p> <p>She has experience working in political institutions and environment as well as managing and implementing democracy and governance programs.</p> <p>She joined the Company on the 2nd October, 2015.</p>

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 <p>8. Chebet Alaro Evelyne Director</p>	<p>Chebet Alaro holds a Bachelor of Commerce degree in Marketing. She is a Marketing Specialist with over 9 years' experience in Brand Management, Marketing Strategy, Sales Management, Below the Line Consumer Engagement, Client Service and event Management.</p> <p>She joined the Company on the 2nd October, 2015.</p>
 <p>9. CPA Geoffrey K. Mwitari Alternate Director to Principal Secretary, The National Treasury</p>	<p>CPA Geoffrey Mwitari holds an MBA in Strategic Management from Moi University. He is a Certified Public Accountant registered with ICPAK and has wide knowledge in Government Finance and Accounting. Currently working with the National Treasury, Directorate of Accounting Services.</p> <p>He joined the Company on the 14th October, 2015.</p>
 <p>10. Hezekiah B. Okeyo Alternate Director to PS State Department for Investment and Industry</p>	<p>Hezekiah B. Okeyo holds a Master of Business Administration (MBA) in Strategic Management from the Eastern and Southern African Management Institute (ESAMI), Tanzania; Master of Science (MSc) in Environmental Science and Technology from the UNESCO Institute for Environment and Water, Delft, The Netherlands; and Bachelor of Science (BSc) in Industrial Chemistry from the University of Nairobi. He has over 25 years' experience in private sector development and industrial policy/strategy research and analysis. He has represented the Ministry to the Board of Directors of several State Corporations for a period spanning over 15 years.</p> <p>He joined the Company on the 25th November, 2016.</p>
 <p>11. Charity Ndeke Acting Manager, Legal Services</p>	<p>Charity Ndeke is an advocate of the High Court of Kenya. She holds a Bachelor of Laws Degree from the University of Nairobi and a post graduate Diploma in law from the Kenya school of Law and is currently pursuing Corporate Secretarial Studies.</p> <p>She has vast experience in Conveyance, Litigation and Arbitration areas of law.</p> <p>She joined the Company in January, 2015.</p>



III. MANAGEMENT TEAM

 <p>1. Dr. Parmain ole Narikae Managing Director</p>	<p>Dr. Parmain ole Narikae is the Managing Director. He holds Doctorate in Business Administration. He also holds an MBA and Bachelor of Science Degree in Business Administration (First class honors) from United States International University. He has wide experience as a career banker having served in senior leadership position as Chief Manager, General Manager and Executive Director in Co-operative Bank and Chase Bank. He is a member of the Institute of Directors.</p> <p>He joined on 5th September, 2016.</p>
 <p>2. Monica C. Kotut Manager, Corporate Strategy and Planning</p>	<p>Mrs. Monica Kotut is currently the Manager, Corporate Strategy and Planning. She holds an MBA (HR Option) from Kenyatta University; Bachelor of Arts from Moi University and Higher National Diploma in Human Resource Management from the Institute of Human Resource management (IHRM). She is member of the Institute of Human Resource management. She joined KIE in 1994 as a Projects Officer and rose through the ranks to the current position.</p>
 <p>3. Samuel Chogo Manager, Business Advisory Services</p>	<p>Samuel Chogo joined KIE in October 1988, after working with the Ministry of Co-operative Development. He holds a Bachelor of Commerce (Finance) degree from the University of Nairobi and a Master's degree in Business Management (Finance) from Moi University. He has served in the organization in various capacities and is currently the Business Advisory Services Manager.</p>
 <p>4. Charity Ndeke Acting Manager, Legal Services</p>	<p>Charity Ndeke is an advocate of the High Court of Kenya. She holds a Bachelor of Laws Degree from the University of Nairobi and a post graduate Diploma in law from the Kenya school of Law and is currently pursuing Corporate Secretarial Studies.</p> <p>She has vast experience in conveyance, Litigation and Arbitration areas of law.</p> <p>She joined the Company in January, 2015.</p>

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 <p>5. CPA Charles M. Mativo Finance Manager</p>	<p>CPA Charles Mativo is an Accountant by profession and holds a Bachelor of Commerce degree from KCA University. He is a Certified Public Accountant CPA (K) and is a member of the Institute of Certified Public Accountants of Kenya (ICPAK). He has experience in Accounting and Finance. He joined the company in 1985.</p>
 <p>6. Joseph K. Tele Manager, Industrial Estates Development & Incubations services</p>	<p>Mr Joseph K. Tele holds Masters of Business administration degree from Kenyatta University and Bachelor of Commerce Degree in Accounting and Auditing from University of Poona. He is currently pursuing masters of management and leadership degree at MUA. He joined KIE in 1987 as a projects Accountant and has previously held various management positions as Finance manager and Credit Risk Manager. Mr Tele also currently serves as Chairman, Board of Governors, Nairobi Technical Training Institute.</p>
 <p>7. Matilda Mwachia Manager, Human Resources & Administration</p>	<p>Ms. Matilda Mwachia holds an MBA (Strategic Management); a Bachelor of Business Administration in Human Resource and a Diploma in Human Resource Management. She is experienced in Human Resource management having worked with TSC for over (10) years before joining the Company in the year 2012.</p>
 <p>8. Reginald Kimanthi Manager, Operations</p>	<p>Mr Reginald Kimanthi is an economist by profession and holds a BA in Cooperative Management from Kenyatta University.</p> <p>He joined KIE in 1986 as a Projects Officer and rose through the ranks as Branch Manager, Regional Manager and Head of Department as is currently the Manager, Operations.</p>

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 <p>9. Clifford Otieno Obiewa Manager, Risk Management</p>	<p>Mr Clifford Obiewa is the Manager, Risk Management. He holds a Bachelor of Science Degree in Computer Science from Moi University and currently pursuing an MBA in Finance. He is a Certified Predictive Analytics Specialist & a Certified Operational Risk Practitioner among several other trainings in Credit Risk Management. He previously worked for Eco bank Kenya Ltd, Housing Finance Group & Commercial Bank of Africa at middle level management prior to joining KIE on 2nd June, 2017.</p>
 <p>10. Rosemary Kalui Manager, Special Projects</p>	<p>Ms. Rosemary Kalui holds a Bachelor's Degree in Science, Business Administration, from University of East Africa Baraton; Diploma in Appraisal, Monitoring and Evaluation of Small and Micro-Enterprise Development Programmes- Durham University Business School(UK). She also has a Higher Diploma in Counselling from Kenya Association of Professional Counsellors. She has vast experience in staff training, project appraisal and monitoring and evaluation. She was instrumental in the setting up the Business Development and Group guarantee scheme in KIE. She has served in various Management and Counselling positions in the organization prior to her appointment as Manager, Special Projects.</p>
 <p>11. Vivian Wawasi Manager, ICT</p>	<p>Ms. Vivian Wawasi holds a Bachelor's Degree in ICT from Jomo Kenyatta University of Agriculture and Technology (JKUAT) and currently pursuing MSc in Project Management from the same University. She has vast experience in Project Management and Database Administration. She has been instrumental in the implementation of ICT projects in the organization. She joined the organization in 2010 as an ICT project Manager and rose to her current position.</p>
 <p>12. CPA Teobard Mugo Manager, Internal Audit</p>	<p>CPA Teobard Mugo is an Accountant by profession and holds a Bachelor of Commerce degree from KCA University. He is a Certified Public Accountant and a member of the Institute of Certified Public Accountants of Kenya (ICPAK). He is in charge of the Internal Audit Department. He joined the company in 1994.</p>

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13. Doreen K. Kimathi
Assistant Manager, Credit Department

Mrs. Doreen Kimathi is currently the Assistant Manager in charge of Credit Department. She holds an MBA (Strategic Management) from USIU-Africa, Bachelor of Commerce (Honours), Kenyatta University; and is currently pursuing her PhD in Entrepreneurship at Jomo Kenyatta University of Agriculture and Technology (JKUAT). She has vast banking and finance experience spanning over 13 years. She joined KIE in 2017.

IV. CHAIRPERSON'S STATEMENT



It is my pleasure to present to you the Financial Year 2017/2018 Annual Report and Financial Statements for Kenya Industrial Estates Limited. For the period, the company realized significant growth in delivering on its mandate whose focus is to champion the development of Micro Small and Medium Enterprises (MSMEs) throughout the country with specific focus on clustering of industries, rural industrialization and value addition to locally available raw materials as envisaged in the country's Vision 2030 blue print.

Business Environment

Globally, economic growth expanded by 3.6 per cent in 2017 from 3.1 per cent in 2016. The sub-Saharan Africa's real gross domestic product is estimated to have grown by 2.6 per cent in 2017 compared to 1.5 per cent growth registered in 2016 mainly due to higher commodity prices and favorable external environment

The global inflation rose to 3.1% in 2017 from 2.8 % partly attributable to increase in oil prices. The world trade rose by 4.8% in 2017 compared to 2.6% in 2016 as a result of recovery in global manufacturing occasioned by increased investments. The global unemployment rate stood at 5.6% in 2017.

The Kenya Gross Domestic Product (GDP) is estimated to have expanded by 4.9 % in 2017 compared to a revised growth of 5.9% in 2016. The slowdown in the performance of the Economy was partly attributable to uncertainty associated with prolonged electioneering period coupled with adverse effects of weather conditions.

Key macroeconomic Indicators largely remained stable and therefore supportive of growth in 2017. Interest rates declined due to the impact of their capping that became effective in september 2016. In the money markets, the Kenyan shilling strengthened against most of the major currencies but weakened against the Euro and the US Dollar in 2017. There was a moderate build up in inflationary pressures mainly due to significant increase in oil and food prices during the year . Thus the inflation rate rose from 6.3% in 2016 to 8.0% in 2017.

There was a varied performance across the various sectors of the Economy with Accommodation and Food Services, Information and Communication Technology, Education, Wholesale and Retail trade, and Public Administration registering accelerated growths in 2017 compared to 2016. On the other hand , growths in Manufacturing , Agriculture, Forestry and Fishing, and Financial and Insurance decelerated significantly over the same period and therefore dampened the overall growth in 2017.

The global economic recovery experienced in 2017 is expected to continue more strongly in 2018. In Kenya , the expected political stability and favourable macroeconomic environment are likely to be conducive for acceleration in growth in 2018. The on-going investments in infrastructure, improved business confidence , strong private consumption are likely to support growth in 2018. Weather forecast points to a possibility of sufficient and well spread longrains in 2018 which is likely to be a major boost for activities in the agriculture and electricity and water supply sectors. This will in turn be favourable for the manufacturing sector. Rising oil prices and slow credit uptake by the private sector will however likely dampen growth in 2018. Inflation is expected to ease in 2018 supported by lower food prices due to improved agricultural output. The expected strong world trade is likely to increase Kenya's export and therefore supportive of growth. Other macroeconomic indicators are projected to remain stable and supportive of growth in 2018.

Kenya Industrial Estates Limited

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The Micro, Small and Medium Enterprises (MSMEs) Sub-Sector

The Kenya Vision 2030 recognizes the central role played by the manufacturing sector in the realization of the goal of making Kenya a newly industrialized middle income country by the year 2030. The sector registered a favourable performance within the period although the cost of borrowing curtailed the availability of cheap credit to finance the sector. The sector registered a modest growth of 0.2 per cent in 2017 compared to a growth of 2.7 per cent in 2016. There was an increase in loans advanced to the sector by 13.1 per cent from KShs. 275.8 billion in 2016 to KShs. 311.8 billion in 2017. In addition, there was an increase in financing of projects approved by industrial financial institutions by 5.3 per cent from KShs. 1.1 billion in 2016 to KShs 1.3 billion in 2017.

The development and promotion of MSMEs has been identified as a critical engine to propel the country's industrialization process. MSMEs have the potential to achieve rapid economic growth, while generating a considerable extent of employment opportunities.

Business Performance

In year 2017/2018 Financial Year, KIE incubated MSMEs by providing affordable credit/loan facilities to the tune of KShs 210.3 million benefiting 436 enterprises, provided industrial workspace/incubators to 204 enterprises, and built the capacity of 34,576 MSMEs through training on entrepreneurship skills. The organization also facilitated linkages between 266 SMEs and large enterprises within and across sectors. Through this multipronged approach, the company supported MSMEs in textile and garments, furniture and wood, food processing and construction creating 14,920 jobs. These achievements were realized despite of the challenges the company encountered within the period.

Transformation Agenda

In the period under review the organization continued with its transformation agenda as envisioned in the strategic plan 2013-2018 whose theme is 'Scaling up Operations and Broadening Outreach in Line with Vision 2030 Aspirations'. Our key strategic objective during this period included:- Scaling up company operations in line with Vision 2030 aspirations; Enhancing profitability and financial sustainability of the organization; Enhancing efficiency and effectiveness in service delivery; Enhancing institutional capacity; and Enhancing the company's corporate image.

Appreciation

I highly appreciate the Government of Kenya, through the Ministry of Industry, Trade and Cooperatives and all the Ministries, State departments and Agencies that provided great support to the company during this period

To my fellow Board members, I express my gratitude for your priceless role and devotion to scale the company to greater heights.

To our esteemed customers, I express my highest regard for choosing the company as your number one partner in your entrepreneurship endeavours.

Kenya Industrial Estates Limited

**Reports and Financial Statements
For the year ended June 30, 2018**

I wish to thank our competent, committee and dedicated management and staff for their steadfast and indefatigable efforts towards the realization of organization's mandate.



BOB KARINA
ACTING CHAIRPERSON, BOARD OF DIRECTORS

V. REPORT OF THE CHIEF EXECUTIVE OFFICER



It is my great delight to present to you the company Annual Report for the year ended 30th June 2018. This was a great year as the company got new leadership both at the Board and office of the Managing Director.

I am very happy to report that the company coped with challenges encountered during the year under review to realize its mandate of promoting Industrialization in Kenya through the provision of quality and competitive industrial infrastructure, financial products and business development services.

Business Performance

The company recorded a remarkable improved performance in operations in the year 2017/2018 compared to 2016/2017 in spite of the loss occasioned by the budget cut.

Disbursement of loans to MSMEs was Kshs 210.3 million in 2017/18. The number of entrepreneurs trained on business and entrepreneurship skills increased by 3.69% from 34,576 in 2016/2017 to 35,852 entrepreneurs trained in the period under review.

The institution facilitates MSMEs to access machinery, raw materials and markets for their finished products. This is achieved through facilitation of backward and forward linkages between MSMEs and Large Enterprises together with suppliers and market distribution chains within and across sectors. During the financial year under review, the institution facilitated 266 linkages compared to 222 linkages the previous year. The linkages were mainly in the areas of machinery/equipment acquisition both locally and internationally. In addition, access to markets is also facilitated through shows, exhibition and direct linkage with buyers. In the period under review KIE created 19,204 jobs compared to 14,920 in the previous year. These achievements were realised despite the challenges encountered within the period.

On financials, the company recorded a loss of Kshs. 166.1 Million in 2017/2018 compared to a loss of Kshs. 125.9 Million in the previous year. The decline was attributed to decrease in Government grant for both recurrent and development expenditure which ultimately led to reduced low disbursement and thus low interest. On the balance sheet, the company's property and equipment decreased to Kshs. 1,177.0 Million compared to Kshs.1, 190.7 Million in the previous year. Investment property stood at Kshs 592.4 compared to Kshs.577.4 Million in the last financial year. Advances and loans were 737.6 Million compared to Kshs. 705.5 Million for same period in the last financial year. Overall, the total assets of the company as at 30th June, 2018 amounted to Kshs. 3.322 Billion compared to Kshs.3.287 Million as at 30th June, 2017.

A large, stylized handwritten signature in black ink that reads "Parmain Ole Nariikae".

DR. PARMAIN OLE NARIKAE
MANAGING DIRECTOR

VI. CORPORATE GOVERNANCE STATEMENT

Corporate governance refers to the mechanisms, relations and processes by which a corporation is controlled and directed. It involves balancing the many interests of the stakeholders of a corporation.

To strengthen accountability and to build confidence among stakeholders, the company is committed to sound principles of corporate governance and sustainability. The Board of Directors of KIE Limited is responsible for the long term growth and the profitability of the company, whilst being accountable to shareholders for compliance with the law and maintaining the highest standards of Corporate Governance and business ethics.

The Company has adopted high standards and applies strict rules of conduct based on the best corporate practices. As part of this commitment, the Board adheres to good corporate governance by embracing the following principles:

1. Observing high standards of ethical and moral behavior;
2. Acting in the best interest of the Company;
3. Remunerating and promoting fairly and responsibly;
4. Recognizing the legitimate interests of stakeholders;
5. Ensuring that the Company acts as a good corporate citizen.

The Company has a Board Charter which sets out the roles, composition and responsibilities of the Board of Directors.

The Board of Directors

The Board of Directors is the highest governing body of the Company. The Board is appointed within the provisions of Section 6 (1) (e) of the State Corporations Act. The Board exercises leadership, enterprise integrity and judgement in directing the Company so as to achieve continuing prosperity for the Company and its shareholders. It at all times acts in the best interests of the Company in a manner based on transparency, integrity, accountability and responsibility. Removal of the members of the Board is done in accordance with the provisions of Section 7 of the State Corporations Act or by resignation.

Role and Functions of the Board

In providing leadership and strategic direction to the Company, the Board is tasked with the following key responsibilities:

1. Determining the business strategies, plans and policies that underpin the corporate strategy;
2. Discussing and approving strategic plans, policies and annual budgets;
3. Continually monitoring the exercise of delegated power by management;
4. Ensuring that a comprehensive system of policies and procedures is in place and that appropriate governance structures exist to ensure the smooth, efficient and prudent stewardship of the Company;
5. Identifying and reviewing key risks, opportunities and strengths relating to the Company;

Kenya Industrial Estates Limited

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6. Ensuring that the company's organisational structure and capability are appropriate for implementing the chosen strategies;
7. Setting policies on internal control and obtaining regular assurance that the system is functioning effectively and is effective in managing risks;

Board members are normally inducted and continually trained to enrich their skills as they steer the Company to higher levels. Their performance is evaluated yearly.

In discharging their roles, the Board members are required to declare any conflict of interest or the absence of the same in all matters.

The Board members are also expected to continually adhere to the code of conduct and ethics as stipulated in the Mwongozo Code of Governance for State Corporations. Governance audit is carried out to promote appropriate ethics within the organisation.

Board Committees:

For efficient decision making by the Board in discharging its duties and responsibilities, the following Principal Committees have been set up and meet under well-defined terms of reference set by the Board.

1. Finance and Investment Committee;
2. Audit Committee;
3. Human Resource and Legal Committee.

The Board defines terms of reference under which the respective Committee's operate. The Company Secretary is the secretary to all the Board Committees except the Audit Committee where the Head of Internal Audit is the secretary. The Committees submit reports of their activities to the Board.

Finance and Investment Committee

The objective of the Committee is to provide leadership in the achievement of attractive returns on the Company's equity and discuss and determine the prudence of financial management and to review the asset mix and volumes, return on investment and the cost of both assets and liabilities in order to achieve the institution's short-term and long-term goals.

The membership of the Finance and Investment Committee is comprised as follows:

1. Chebet Alaro Everlyne - Chairperson
2. Lucas Kirui
3. Charles Kigen
4. Hezekiah B. Okeyo (Alternate to the PS, State Department for Investment & Industry)
5. Geoffrey Mwitari (Alternate to the PS National Treasury)

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For the year ended June 30, 2018

Audit Committee

This is an oversight Committee of the Board. The Committee assists the board in discharging its duties relating to the safeguarding of assets, the operation of adequate systems, control processes and the preparations of accurate financial reporting and statements in compliance with all applicable legal requirements and accounting standards. The Committee reviews and assess the integrity of the risk control systems and ensure that the risk policies and strategies are effectively managed.

The membership of the Audit Committee is comprised as follows:

1. Opiyo Elsie Achieng - Chairperson
2. Charles Kigen
3. Lucas Kirui
4. Hezekiah B. Okeyo (Alternate to the PS, State Department for Investment & Industry)
5. Bob Karina

Human Resource and Legal Committee

The Committee's principal objective is to recommend to the Board strategic directions in matters relating to HR and legal compliance.

The membership of the Human Resources and Legal Committee is comprised as follows:

1. Bob Karina- Chairperson
2. Chebet Alaro Everlyne
3. Elsie Achieng Opiyo
4. Geoffrey Mwitari (Alternate to the Principal Secretary, The National Treasury)

Board Meetings

The Board of Directors meets regularly as required in order to effectively and efficiently monitors the implementation of the Company's planned strategy, review it in conjunction with its financial performance and business development and approve issues of strategic nature. Specific reviews are also undertaken on operational issues and future planning.

The Notice and Agenda and detailed Board Papers of meetings are circulated on a timely basis to ensure that the directors receive accurate, timely and clear information to enable it discharge their duties. The Board held 17 meetings during the year under review and the attendance was as follows:

Name Of Non-executive Director	Expected No. of meetings in the year 2017/18	No. of meetings attended	% Attendance
Bob Karina	12	12	100
Elsie Opiyo	12	12	100
Chebet Alaro Everlyne	15	12	80
Geoffrey Mwitari	15	15	100
Charles Kigen	15	15	100
Lukas Kirui	15	15	100
Hezekiah Okeyo	15	11	73.3

Kenya Industrial Estates Limited

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For the year ended June 30, 2018**

Board Remuneration

Board members are remunerated for their services in accordance with the relevant legislative provisions and/or guidance from the State Corporations Advisory Committee. Details of Directors emoluments during the year are shown on page 28. Directors are entitled to sitting allowance for every meeting attended, lunch allowance (in lieu of lunch being provided) accommodation allowance and mileage reimbursement where applicable within set limits of state corporations. Additionally, the Chairman is paid a monthly honorarium.

Directors Shareholding

None of the Directors owns shares in the Company in their individual capacity.

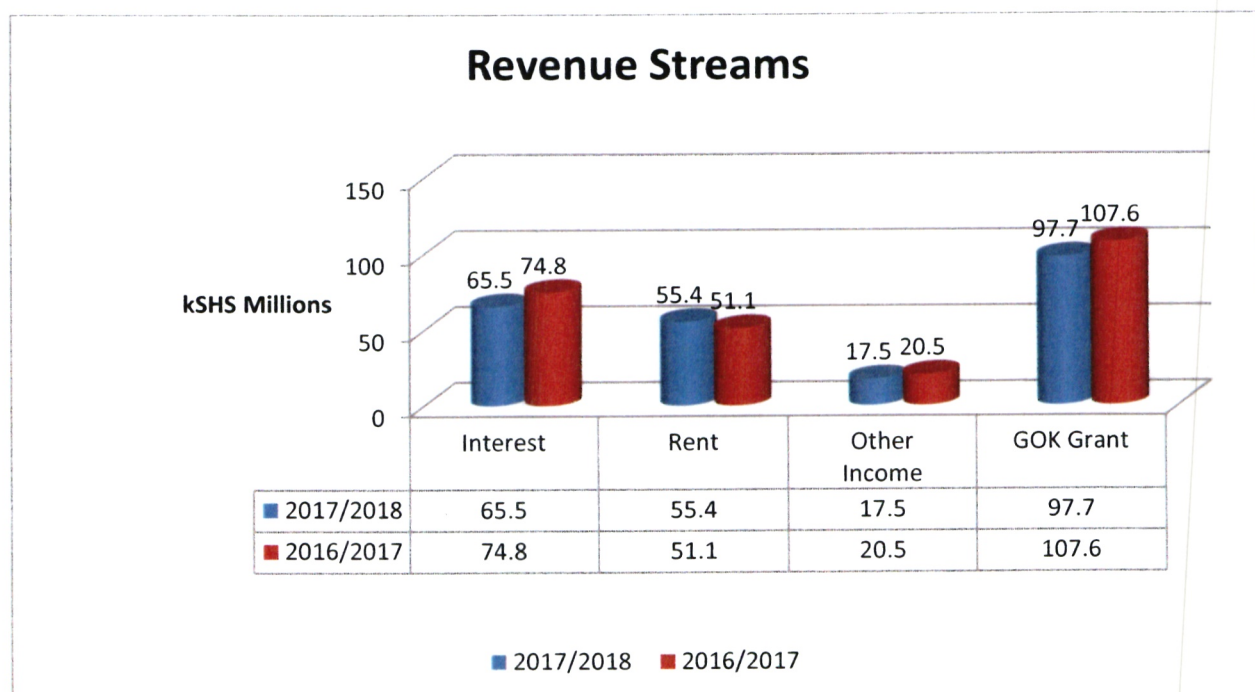
VII. MANAGEMENT DISCUSSION AND ANALYSIS

1. Financial Performance

a) Pre-tax

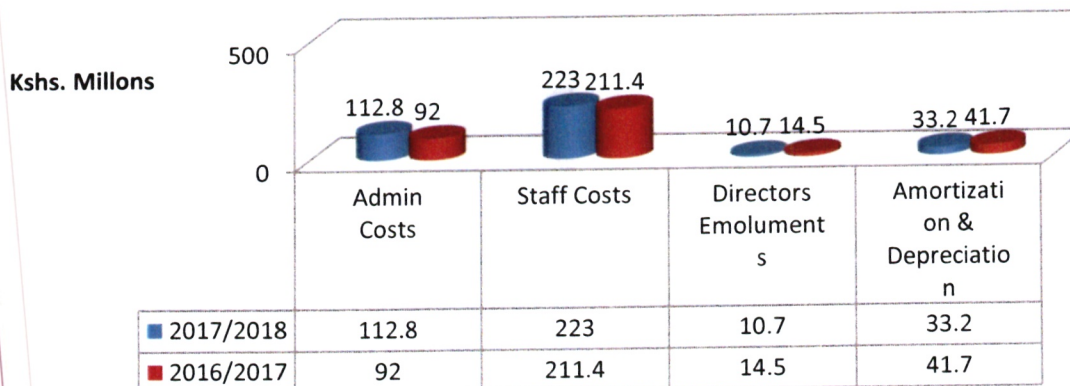
During the Financial year 2017/2018, the Company posted a pre-tax loss of Kshs.166.1 Million. This is compared to a loss of Kshs. 125.9 million for the last Financial Year 2016/2017. This loss is attributed to 67% budget cut from KShs. 607.6 Million (Kshs. 500 Million Development and Kshs 107.6 Million Recurrent) which was reduced to KShs 417.6 Million (Kshs. 250M Development and Kshs. 117.6M Recurrent) but only received KShs. 200.3 million of which Kshs 196.4 Million was for development and Kshs 97.7 Million for Recurrent at close of the financial year under review. This loss was exacerbated by the lack of release of KShs. 141.1 Million to the company. Receipt of the full budget allocation of Kshs. 417.6 Million would have significantly improved the company’s performance.

This was coupled with uncertain political environment occasioned by prolonged electioneering period in the first half of the financial year which reduced revenue generation due to slow uptake of credit by SMEs than earlier targeted. The overall Return on investment for the financial year is (4.9%).



The company’s operating expenditure for the period under review decreased slightly to Kshs 386.7 million compared to operating expenditure of Kshs 359.5 million in the previous year.

Expenditure Comparison Between 2016/2017 & 2017/2018



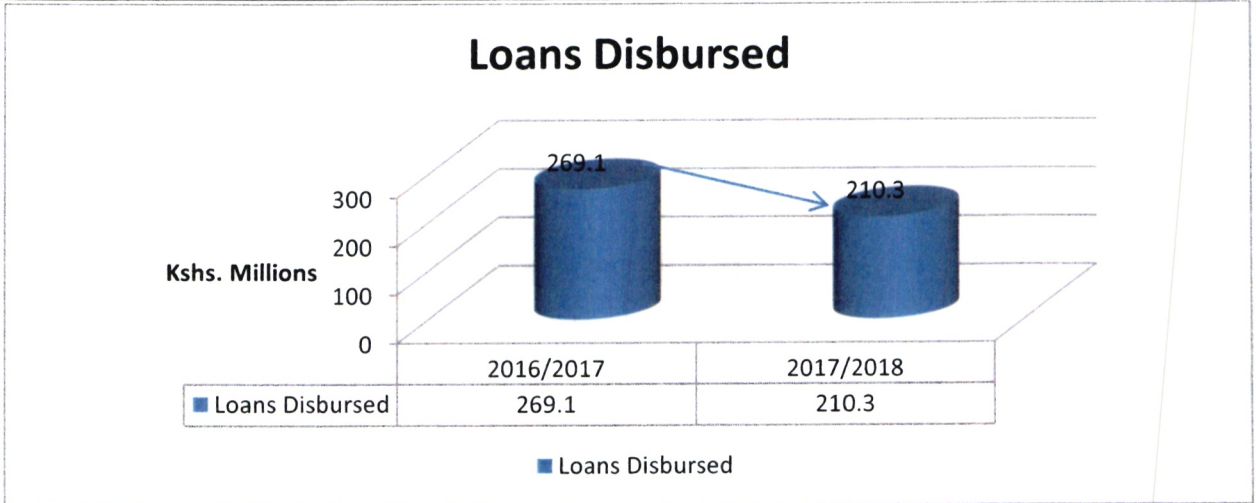
b) Company Financial Position

The company total assets as at 30th June, 2018 stood at Kshs. 3.32 Billion compared to Kshs 3.29 Billion for same period in the last Financial Year. The company current assets amounted to Kshs. 266.3 Million compared to current liabilities amounting to Kshs. 1.57 Billion. Current assets for same period in the last financial year amounted to Kshs.256.5 million while current liabilities for same period in the last financial year amounted to Kshs.1.56 Billion. This financial position continues to be a challenge to the organization because it makes it difficult to access other forms of financing other than from the Government, hampering the organizations ability to fully achieve its mandate. The organization is working with the parent Ministry to restructure its balance sheet and make it attractive. To this end a Cabinet Memorandum has already been prepared which would restructure an amount of Kshs 1.428 Billion out of the books.

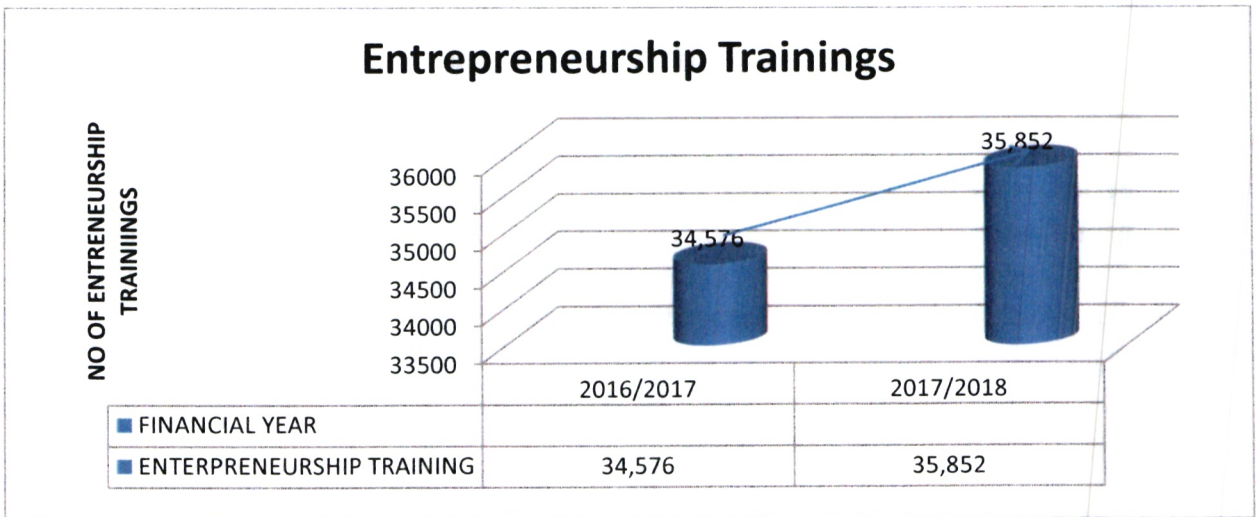
2. Operations

KIE has products which are designed to meet the needs of customers. There was a marked improvement in performance during the period under review compared to the previous period as demonstrated below:

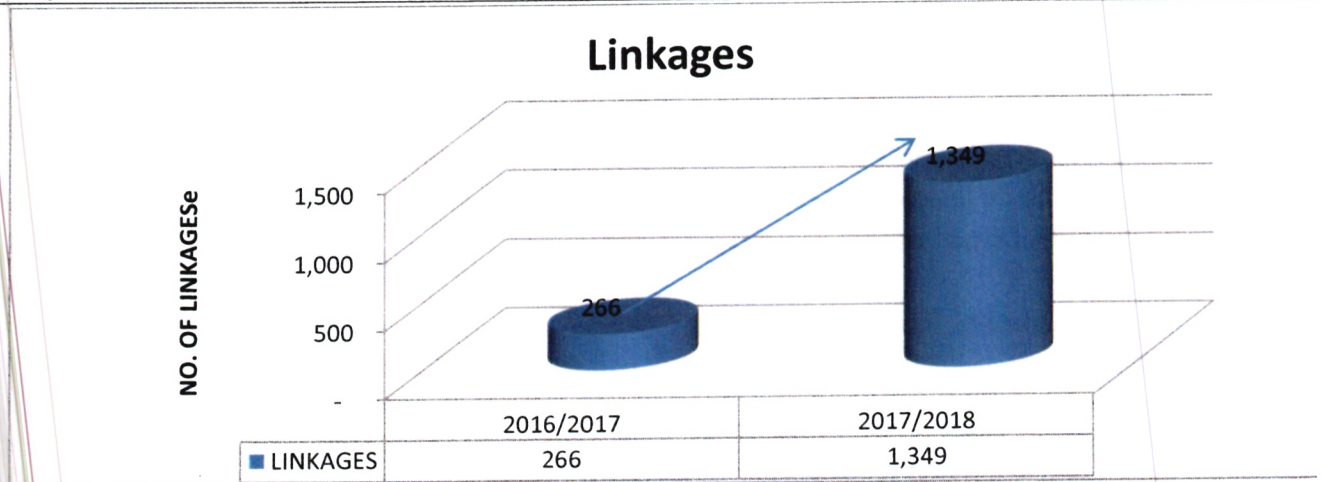
a) **Credit to SMEs:** For the period under review, the company recorded 28.9% decline in amount of credit offered SMEs to a tune of Kshs. 210.3 million compared to Kshs.269.1 Million in 2016/2017 Financial Year.



b) Entrepreneurship Training: For the period under review, the company recorded 3.69% growth in number of SMEs trained to 35,852 SMEs across the country compared to 34,576 trained in 2016/2017 Financial Year.



c) Linkages: For the period under review, the company recorded 407% growth in linkages of SMEs to large enterprises, market and suppliers of machinery. The company linked 1,349 SMEs compared to 266 linkages in the previous year.



3. Key projects and investment being implemented by KIE

The company is currently implementing one project namely Credit to Small and Medium Enterprises.

Credit to Small and Medium Enterprises (SMEs)

This project aims at providing affordable medium to long-term credit to SMEs in the manufacturing sector which is core to the country vision of becoming a newly industrialized, globally competitive and prosperous middle income country by year 2030. The total project cost is estimated at Kshs.3.35 Billion and is being implemented over three financial years up to 2019/2020. The expected outputs of the project are: Disbursement of Kshs.3.35 Billion to SMEs, Creation of 9,249 new enterprises, Creation new 46,205 direct jobs and Creation of over 231,000 indirect jobs. Other benefits of the project are: Stimulating rural industrialization, Wealth Creation, Equitable distribution of wealth, Support to Youth and Women, Value addition to local raw materials and increase in contribution to government taxes by SMEs.

Under the same programme, the company is constructing a SME Incubation Centre in Nairobi. The sub-project aims at providing affordable workspace to SMEs in the Manufacturing sector. The sub-project is 99% complete and will be ready for occupation in 2018/2019. When complete, it will have 30 incubators; will create 30 new enterprises, 300 new direct jobs and 1,500 indirect jobs.

4. Major risks facing the entity

The company's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The major risks for the company are credit, liquidity market and operational risk.

a) Credit Risk Management

Credit risk refers to the risk that customers will default on their contractual obligations resulting in financial loss to the company. The company's credit risk is primarily attributable to liquid funds and loans advanced to customers. The company credit risk attributable to liquid funds is low because the counter parties are banks with high reputation. Credit risk attributable to loans is managed through a framework that sets out policies and procedures covering its measurement and management. The company has

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ensured clear segregation of duties between transaction originators in the business (Filed officers and Business Development) and approvers in the Risk Function. All credit exposure limits are approved within a defined credit approval authority matrix. The company also manages its credit exposures through the principle of diversification across products, geographical locations, industries and client segments. Potential credit losses from any given account, client or portfolio are mitigated using a range of tools such as collateral, credit insurance and guarantees.

b) Liquidity Risk Management

Liquidity risk is the risk that the company will encounter difficulty in meeting obligations associated with financial liabilities. KIE's approach to managing liquidity is to ensure as far as possible, that it will always have sufficient liquidity to meet its liabilities when due through maintaining banking facilities and by continuous monitoring of forecasts and actual cash flows.

c) Market Risk Management

It is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect KIE. KIE currently is not actively affected by foreign exchange risk and equity/commodity prices due to its nature of business.

Interest rate risk is the risk of loss from fluctuations in the future cash flows because of a change in market interest rates which affects KIE's investment. KIE interest rate regime is fairly stable and not driven by on-going market dynamics.

d) Operational Risk

Operational risk is the potential for loss arising from inadequate or failed internal processes, people and systems or from the impact of external events. The management of operational risk is a challenge due to its broad scope as operational risks arise from all activities carried out within KIE. KIE endeavours to discuss all operational risks with department heads and unit managers to ensure effective controls are in place with a review at least once a year.

5. Material arrears in statutory/financial obligations

As of 30th June, 2018, the company had long-outstanding financial obligations which arose due to budgetary constraints and legal disputes arising from some contracts. The company has been settling these obligations through negotiated instalments while for those in court, the company will await the court decision. The most significant obligations were: Kshs.12.3 Million in relation to construction of SME parks, Kshs.0.3 Million unrespect of PAYE, Kshs.10.0 Million owed to Youth Enterprise Development Fund (YEDF), The Company also owes Kshs.1.438 Billion to the Government of Kenya and some International Financial Institutions with Government guarantee. The company is consulting the Parent Ministry and National Treasury on how to restructure the company Balance Sheet to eliminate the Government and External loans from its books. A Cabinet paper has also been drafted awaiting approval.

6. Entity's compliance with statutory requirements

The company has complied with all the statutory requirements that apply to it.

VIII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT

Corporate Social Responsibility (CSR) is an integral part of our business strategy. As a company we have been able to grow as a business due to good will from the communities that we operate within. We see enterprise development as an important step towards alleviating poverty through wealth and employment creation. We have always believed KIE can – and should – have a positive impact on the communities we serve.

KIE recognises that it has responsibilities to all stakeholders, including the interests of employees and their families, the need to foster the KIE's business relationships with partners, customers, suppliers and others; and the impact of the company operations on the local communities and surrounding environment where it operates.

KIE is dedicated to supplying products of the highest quality to meet its customers' requirements in a manner that is consistent with high environmental and ethical standards. KIE makes a contribution to local charities and communities in areas where it operates its business.

Towards this, the company planted trees at its office compound in Nairobi, North Rift and Coast regions. This is to mitigate the impacts of industrial activities on nature and consequently weather behaviour and patterns.

IX. REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2018 which show the state of the company's affairs.

Principal activities

The principal activities of the company are to promote and facilitate industrialisation through the provision of credit facilities, business development services and industrial work spaces.

Results

The results of the company for the year ended June 30, 2018 are set out on page 29.

Dividends

The Directors do not recommend dividends.

Directors

The members of the Board of Directors who served during the year are shown on page 3.

Auditors

The Auditor General is responsible for the statutory audit of the entity in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015.

By Order of the Board



Charity Ndeke
Acting Manager, Legal
Nairobi

Date _____ 2018

X. STATEMENT OF DIRECTORS' RESPONSIBILITIES

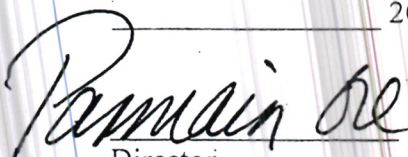
Section 81 of the Public Finance Management Act, 2012 and section 14 of the State Corporations Act, require the Directors to prepare financial statements in respect of Kenya Industrial Estates Ltd, which give a true and fair view of the state of affairs of the Company at the end of the financial year/period and the operating results of the Company for that year/period. The Directors are also required to ensure that the Company keeps proper accounting records which disclose with reasonable accuracy the financial position of the Company. The Directors are also responsible for safeguarding the assets of the Company.

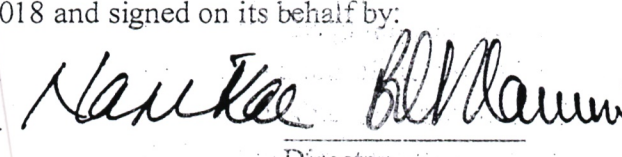
The Directors are responsible for the preparation and presentation of the Company's financial statements, which give a true and fair view of the state of affairs of the Company for and as at the end of the financial year (period) ended on June 30, 2018. These responsibilities include: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the company; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Company; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.


The Directors accept responsibility for the Company's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act, 2012 and the State Corporations Act. The Directors are of the opinion that the Company's financial statements give a true and fair view of the state of Company's transactions during the financial year ended June 30, 2018, and of the Company's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Company, which have been relied upon in the preparation of the Company's financial statements as well as the adequacy of the systems of internal financial control.

Approval of the financial statements

The Kenya Industrial Estates Ltd financial statements were approved by the Board on _____ 2018 and signed on its behalf by:


Director


Director


Director

XI. REPORT OF THE INDEPENDENT AUDITORS ON KENYA INDUSTRIAL ESTATES LTD

REPUBLIC OF KENYA

Telephone: +254-20-342330
Fax: +254-20-311482
E-Mail: oag@oagkenya.go.ke
Website: www.kenao.go.ke



P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON KENYA INDUSTRIAL ESTATES LIMITED FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kenya Industrial Estates Limited set out on pages 31 to 81, which comprise the statement of financial position as at 30 June 2018, and the statement of profit and loss and other comprehensive income, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Kenya Industrial Estates Limited as at 30 June 2018, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (Accrual Basis) and comply with the Companies Act, 2015.

Basis for Qualified Opinion

1. Financial Performance

During the year under review, the Company recorded a loss before tax of Kshs.167,101,000 (2016/2017 - loss of Kshs.125,109,000 and 2015/2016 - loss of Kshs.174,030,000) which brought the cumulative reserves to a negative balance of Kshs.3,111,014,000. In addition, the statement of financial position as at 30 June 2018 reflects total current liabilities of Kshs.1,567,387,000 against total current assets of Kshs.266,345,000 resulting in a negative working capital of Kshs.1,301,042,000.

As reported in previous years, the company is technically insolvent and its existence as a going-concern is dependent upon continued support by the National Government and creditors.

Report of the Auditor-General on the Financial Statements of Kenya Industrial Estates Limited for the year ended 30 June 2018

2. Long Outstanding Trade Payables

Included in trade and other payables balance of Kshs.121,075,000 as reflected under note 26 in the financial statements is Kshs.16,296,975 and Kshs.1,565,726 for trade payables and other payables respectively, which has been outstanding for more than a year.

In view of the foregoing, the Company's inability to pay its creditors in due time may lead to unsustainable pending bills position.

3. Trade and Other Receivables

The statement of financial position as at 30 June 2018 reflects a balance of Kshs.131,631,000 for trade and other receivables. However, the following anomalies were noted;

3.1. Long Outstanding Staff Receivables

Note 21(a) reflects a balance of Kshs.3,920,396 as staff receivable which includes Kshs.2,869,509 relating to advances and imprests for staff members who have since left the company's service. As previously reported, recoverability of the same remains doubtful.

3.2. Non-Movement of Trade Receivables

The trade and other receivables balance as at 30 June 2018 includes sundry debtors totalling Kshs.13,255,378 out of which debts amounting to Kshs.13,246,729 did not record any decrease from the respective balances from the previous financial years. No explanation has been provided by management why these long outstanding balances are carried forward from year to year without being recovered or appropriate action taken against the debtors.

Consequently, it has not been possible to confirm that trade and other receivables balance of Kshs.122,987,000 as at 30 June 2018 is fairly stated.

4. Investment in Consolidated Bank of Kenya Shares

The Company's statement of financial position as at 30 June 2018 reflects unquoted investments of shares in Consolidated Bank of Kenya valued at Kshs.11,200,000. The value of the share has remained the same for many years with no evidence of dividends received from the bank and hence the Company has not obtained value from the investment.

5. Non-Performing Loans

The statement of financial position reflects a figure of Kshs.737,587,000 loans balance as at 30 June 2018 and as reflected in note 19 to the financial statements is a figure of Kshs.1,031,968,485 for gross loans where by Kshs.720,265,226 (70%) are non-performing loans as they include loans of Kshs.630,934,265 which have been outstanding for more than one year.

*The recoverability of the loans and interest remains doubtful with a likelihood of affecting the company performance.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kenya Industrial Estates Limited in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. Except for the matters described in the Basis for Qualified Opinion section, I have determined that there are no other key audit matters to communicate in my report.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Qualified Opinion section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters described in the Basis for Qualified Opinion section of my report, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standards require that I plan and perform the audit to obtain assurance about whether effective

processes and systems of internal control, risk management and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON THE LEGAL AND REGULATORY REQUIREMENTS

As require by Companies Act 2015, I report based on audit, that:

- i. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit;
- ii. In my opinion, adequate accounting records have been kept by the Company so far as appears from the examination of those records; and,
- iii. The Company's financial statements are in agreement with the accounting records and returns.

Responsibilities of Management and Those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (Accrual Basis) and for maintaining effective internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and governance.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the management either intends to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

In addition to the responsibility for the preparation and presentation of the financial statements described above, management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

Those charged with governance are responsible for overseeing the Company financial reporting process, reviewing the effectiveness of how the estates monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the Kenya Industrial Estates Limited policies and procedures may deteriorate.


As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Company to cease to continue as a going concern or to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Company to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.



FCPA Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

26 August 2019

Kenya Industrial Estates Limited

**Reports and Financial Statements
For the year ended June 30, 2018**

XII. STATEMENT OF PROFIT & LOSS AND OTHER COMPREHENSIVE INCOME

	Note	2018 Kshs'000	2017 Kshs'000
REVENUES			
Interest Income	1	65,474	74,817
Grants from National Government	2	97,700	107,600
Rent Income	3	55,358	51,072
Commissions & Charges	4	8,902	11,279
Other Income	5	8,599	9,249
TOTAL REVENUES		236,033	254,017
OPERATING EXPENSES			
Administration Costs	6(a)	112,791	92,042
Staff costs	6(b)	229,967	211,353
Directors Emoluments	6(c)	10,739	14,485
Amortization & Depreciation	14-16	33,241	41,659
TOTAL OPERATING EXPENSES		386,738	359,539
OPERATING PROFIT/ (LOSS)	7	(150,705)	(105,522)
Finance Income	8	4,350	1,776
Finance Costs	9	(27,068)	(27,033)
LOSS BEFORE PROVISIONS		(173,423)	(130,779)
Add Provision for bad debts Write back	10	6,322	5,670
LOSS BEFORE TAXATION		(167,101)	(125,109)
Taxation (Tax Charge)	11	996	(824)
LOSS AFTER TAXATION		(166,105)	(125,933)
Earnings per share – basic and diluted	12	(41)	(31)
Dividend per share	13	-	-

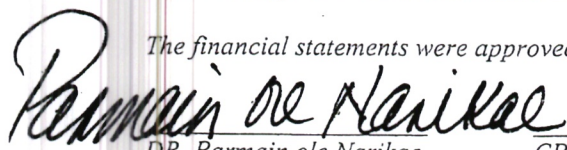
Kenya Industrial Estates Limited

**Reports and Financial Statements
For the year ended June 30, 2018**

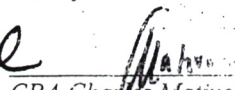
XIII. STATEMENT OF FINANCIAL POSITION

	Note	2018 Kshs'000	2017 Kshs'000
ASSETS			
Non-Current Assets			
Property, plant and equipment	14	764,511	1,190,688
Leasehold Land	15	508,177	513,344
Intangible assets	16	19,034	23,141
Investment property	17	1,004,865	577,360
Unquoted investments	18	11,200	11,200
Staff receivables due after one year	21(b)	10,626	9,718
Loans	19	737,587	705,509
Total Non-Current Assets		3,056,000	3,030,960
Current Assets			
Inventories	20	6,130	5,369
Trade and other receivables	21(a)	122,987	36,098
Bank and cash balances	22	137,228	215,023
Total Current Assets		266,345	256,490
Total Assets		3,322,345	3,287,450
EQUITY AND LIABILITIES			
Capital and Reserves			
Ordinary share capital	23	80,277	80,277
Capital Reserves	24	1,640,467	1,607,059
Capital and Reserves		1,720,744	1,687,336
Non-Current Liabilities			
Deferred Tax Liability	33	34,214	35,863
Total Non-Current Liabilities		34,214	35,863
Current Liabilities			
Borrowings	25	1,438,518	1,422,450
Trade and other payables	26	121,075	128,342
Provision for leave pay	28	5,909	13,442
Bank overdraft	22	1,885	17
Total Current Liabilities		1,567,387	1,564,251
TOTAL EQUITY AND LIABILITIES		3,322,345	3,287,450

The financial statements were approved by the Board on _____ 2019 and signed on its behalf by:



DR. Parmain ole Narikae
Managing Director



CPA Charles Mativo
Finance Manager
ICPAK No.3736



Bob Karina
Acting Chairman of
the Board of Directors

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XIV. STATEMENT OF CHANGES IN EQUITY

Kshs'000

	Ordinary share capital	Capital Reserve	Disposal of Sheds	GOK Irredeemable Loans	Revaluation reserve	Grants	Retained earnings	Total
At July 1, 2016	80,277	22,523	68,637	190,257	838,405	3,085,265	(2,784,989)	1,500,375
Government grant						350,000		350,000
Transfer to Retained Profit							(37,106)	(37,106)
Total comprehensive Loss							(125,933)	(125,933)
At June 30, 2017	80,277	22,523	68,637	190,257	838,405	3,435,265	(2,948,028)	1,687,336
At July 1, 2017	80,277	22,523	68,637	190,257	838,405	3,435,265	(2,948,028)	1,687,336
Government grant						196,394		196,394
Prior year adjustments (note 39)							3,119	3,119
Transfer to Retained profit (Note 40)							(166,105)	(166,105)
At June 30, 2018	80,277	22,523	68,637	190,257	838,405	3,631,659	(3,111,014)	1,720,744

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XV. STATEMENT OF CASH FLOWS

	Note	2018 Kshs'000	2017 Kshs'000
OPERATING ACTIVITIES			
Cash generated from / (used in) operations	29(a)	(243,729)	(152,707)
Interest received	8	4,350	1,776
Net cash generated from/ (used in) operating activities		(239,379)	(150,931)
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	14	(25,678)	(41,583)
Purchase of investment property	17	(-)	(1,425)
Net cash generated from/ (used in) investing activities		(25,678)	(43,008)
FINANCING ACTIVITIES			
GOK Development Grant		196,394	350,000
Repayment of borrowings	25(a)	(11,000)	(8,000)
Net cash generated from/ (used in) financing activities		185,394	342,000
INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS		(79,663)	148,061
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	29(b)	215,006	66,945
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	29(b)	135,343	215,006

Note: Disclosure on changes in Financing Cash flow is on note 29(c)

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XVI. STATEMENT OF BUDGET AND ACTUAL COMPARISON

	Original Budget	Adjustments	Final Budget	Actual On Comparable basis	Performance difference	Percentage (%) Variance	Explanation of material Variances
	2017-2018	2017-2018	2017-2018	2017-2018	2017-2018		
	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000		
REVENUE							
Interest Income	110,652	25,123	85,529	65,474	(20,055)	(23.4%)	(a)
Grant from National Govt	107,600	-	107,600	97,700	(9,900)	(9%)	
Rent Income	60,517	-	60,517	55,358	(5,159)	(9%)	
Other Income	69,679	31,102	38,577	17,501	(21,076)	(55%)	(b)
Provision for write backs	10000	1,651	8,349	7,563	(786)	(9%)	
Finance Income	-	-	-	4,350	4,350	-	
Tax Credit	-	-	-	996	996	-	
Total income	358,448	57,876	300,572	248,942	(51,630)	(17%)	
EXPENSES							
Electricity and water	3,696	-	3,696	2,705	991	27%	(c)
Communication Services & Supplies	11,377	500	10,877	10,280	597	5%	
Transport, Travelling & Subsistence	25,892	2,184	23,708	22,331	1,377	6%	
Marketing & Communication, Advertising, Printing & Stationery and Photocopying	30,342	2,048	28,294	15,236	13,058	6%	(d)
Rent and Rates Expenses	7,500	1,800	5700	4,971	729	13%	
Hospitality & Supplies	900	400	500	85	415	83%	(e)
Insurance Costs	12,900	1,900	11,000	11,600	(600)	(5)%	
Bank Charges	1,800	-	1,800	1,828	(28)	(2)%	
General Expenses	7,304	824	6,480	7,689	(1,209)	(19)%	
Auditors Remuneration	700	-	700	696	4	-	
Legal Fees	5,000	-	5,000	2,372	2,628	53%	(f)
Consultancy fees	13,720	-	13,720	8,615	5,105	37%	(g)
Repairs and Maintenance	7,650	2,288	5,362	6,157	(795)	(15)%	
Other operating Expenses	28,500	1,106	27,394	18,226	9,168	33%	(h)
Staff Costs	288,314	4,500	283,814	229,967	53,847	19%	
Directors Emoluments	18,000	-	18,000	10,739	7,261	40%	(i)
Amortization & Depreciation	42,365	5,221	37,144	33,241	3,903	11%	
Finance cost	27,516	-	27,516	27,068	448	2%	
Provision write off	2,000	2,000	-	1,241	(1,241)	-	
Tax Charge	-	-	-	-	-	-	
Total Expenditure	535,476	24,771	510,705	415,047	95,658	19%	
Net Profit/Loss for the Period	(177,028)	(33,105)	(210,133)	(166,105)	44,028	(21%)	

EXPLANATORY NOTES TO MAJOR VARIANCES

- (a) Interest Income- This was as a result of low disbursement due to budget reduction during the year
- (b) BAS and Other Income -This was as a result of low Business Advisory Services activities and low disbursements due to budget reduction during the year.
- (c) The anticipated increment in electricity and water was due to expected completion of the SME Park which was not achieved.
- (d) The Company had planned to rebrand and do a re-launch but was not accomplished within the year.
- (e) Hospitality & Supplies- Some planned events which were budgeted for did not take place.
- (f) The Company has some legal issues and thus legal costs were anticipated to increase. However, some of the matters were not concluded within 2017/2018 Financial Year.
- (g) The company had planned asset revaluation which was not done in 2017/2018 Financial Year.
- (h) The company had projected increased Business Advisory Services activities. However, the Business Advisory Services activities were low within the Financial Year.
- (i) This was because competency development and strategic review activities that had been planned were not done.

XVII. NOTES TO THE FINANCIAL STATEMENTS

(A) GENERAL INFORMATION

KIE is established by and derives its authority and accountability from the Companies Act. The entity is wholly owned by the Government of Kenya and is domiciled in Kenya. The entity's principal activity is to promote and facilitate industrialization through provision of credit facilities, business development services and industrial workspace.

For Kenyan Companies Act reporting purposes, the balance sheet is represented by the statement of financial position and the profit and loss account by the statement of profit or loss and other comprehensive income in these financial statements

(B) STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the Kenya Industrial Estates Ltd accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in note w-bb.

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the Company and all values are rounded to the nearest thousand (Kshs'000).

The financial statements have been prepared in accordance with the PFM Act, the State Corporations Act, and International Financial Reporting Standards (IFRS). The accounting policies adopted have been consistently applied to all the years presented.

(C) ADOPTION OF NEW AND REVISED STANDARDS

i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2017

Standard/Amendment to a standard	Effective date	Impact
IFRS 14 <i>Regulatory Deferral Accounts</i> (issued in January 2014)	1 st Jan 2016	The new standard, effective for annual accounting periods beginning on or after 1 January 2016, defines a regulatory deferral account balance and allows entities to continue to apply their existing policy for regulatory deferral

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Standard/Amendment to a standard	Effective date	Impact
		<p>account balances, but requires certain disclosures.</p> <p><i>Adoption of the new standard has no impact on the Financial Statements of the entity.</i></p>
<p>Amendments to IFRS 11 titled <i>Accounting for Acquisitions of Interests in Joint Operations</i> (issued in May 2014)</p>	<p>1st Jan 2016</p>	<p>The amendments, require an acquirer of an interest in a joint operation in which the activity constitutes a business (as defined in IFRS 3) to apply all of the business combinations accounting principles and disclosure in IFRS 3 and other IFRSs, except for those principles that conflict with the guidance in IFRS 11. The amendments apply both to the initial acquisition of an interest in a joint operation, and the acquisition of an additional interest in a joint operation (in the latter case, previously held interests are not re-measured).</p> <p><i>The amendment to the IFRS has no impact on the Financial Statements of the entity.</i></p>
<p>Amendments to IAS 16 and IAS 38 titled <i>Clarification of Acceptable Methods of Depreciation and Amortisation</i> (issued in May 2014)</p>	<p>1st Jan 2016</p>	<p>The amendments add guidance and clarify that (i) the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset, and (ii) revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset; however, this presumption can be rebutted in certain limited circumstances.</p> <p><i>The amendment to the IASs did not have an impact on the Financial Statements of the entity since it did not use revenue base method to calculate depreciation.</i></p>

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Standard/Amendment to a standard	Effective date	Impact
Amendments to IAS 16 and IAS 41 titled <i>Agriculture: Bearer Plants (issued in June 2014)</i>	1 st Jan 2016	The amendments, define bearer plants – i.e. living plants which are used solely to grow produce over several periods and usually scrapped at the end of their productive lives (e.g. grape vines, rubber trees, oil palms) - and include them within IAS 16's scope while the produce growing on bearer plants remains within the scope of IAS 41. <i>The amendment to the IAS did not have an impact on the Financial Statements of the entity.</i>
Amendments to IAS 27 titled <i>Equity Method in Separate Financial Statements (issued in August 2014)</i>	1 st Jan 2016	The amendments reinstate the equity method option allowing entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. <i>The amendment to the IAS did not have an impact on the Financial Statements of the entity.</i>
Amendment to IAS 19 (<i>Annual Improvements to IFRSs 2012–2014 Cycle , issued in September 2014</i>)	1 st Jan 2016	The amendment, clarifies that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid. <i>The amendment had no impact on the Financial Statements of the entity.</i>
Amendment to IFRS 5 (<i>Annual Improvements to IFRSs 2012–2014 Cycle , issued in September 2014</i>)	1 st Jan 2016	The amendment adds specific guidance when an entity reclassifies an asset (or a disposal group) from held for sale to held for distribution to owners, or vice versa, and for cases where held-for-distribution accounting is discontinued. <i>The amendment had no impact on the Financial Statements of the entity.</i>
Amendment to IFRS 7 (<i>Annual Improvements to IFRSs 2012–2014</i>)	1 st Jan 2016	The amendment, applicable to annual periods beginning on or after 1 January 2016, adds guidance to clarify whether a servicing contract is continuing involvement in a transferred asset

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Standard/Amendment to a standard	Effective date	Impact
<i>Cycle , issued in September 2014</i>		<i>The amendment had no impact on the Financial Statements of the entity.</i>
Amendments to IFRS 10, IFRS 12 and IAS 28 titled <i>Investment Entities: Applying the Consolidation Exception</i> (issued in December 2014)	1 st Jan 2016	The amendments clarify the application of the consolidation exception for investment entities and their subsidiaries. <i>The amendment had no impact on the Financial Statements of the entity.</i>
Amendments to IAS 1 titled <i>Disclosure Initiative</i> (issued in December 2014)	1 st Jan 2016	The amendments, clarify guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. <i>The amendment had no significant impact on the Financial Statements of the entity.</i>
<i>Recognition of Deferred Tax Assets for Unrealised Losses</i> (Amendments to IAS 12)	1 st Jan 2017	The amendments clarify that: <ul style="list-style-type: none"> • Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use. • The carrying amount of an asset does not limit the estimation of probable future taxable profits. • Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences. <p>An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.</p>

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Standard/Amendment to a standard	Effective date	Impact
		<i>The amendment had no impact on the Financial Statements of the entity.</i>
<i>Disclosure Initiative (Amendments to IAS 7: Statement of Cash flows)</i>	1 st Jan 2017	The amendments' objective is that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. To achieve this objective, the IASB requires that the following changes in liabilities arising from financing activities are disclosed (to the extent necessary): (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes. <i>The amendment will enable users to evaluate changes in liabilities arising from Financing Activities.</i>
<i>Annual Improvements to IFRS Standards 2014–2016 Cycle – Amendments to IFRS 12 Disclosure of interests in other entities</i>	1 st Jan 2017	Clarified the scope of the standard by specifying that the disclosure requirements in the standard, except for those in paragraphs B10–B16, apply to an entity's interests listed in paragraph 5 that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. <i>The amendment had no impact on the Financial Statements of the entity.</i>

ii) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2017

Standard	Effective Date	Impact
<i>FRS 15 Revenue from Contracts with Customers (issued in May 2014)</i>	1 Jan 2018	The new standard, replaces IAS 11, IAS 18 and their interpretations (SIC-31 and IFRIC 13, 15 and 18). It establishes a single and comprehensive framework for revenue recognition to apply consistently across transactions, industries and

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Standard	Effective Date	Impact
		capital markets, with a core principle (based on a five-step model to be applied to all contracts with customers), enhanced disclosures, and new or improved guidance.
IFRS 9 <i>Financial Instruments (issued in July 2014)</i>	1 Jan 2018	<p>This standard will replace IAS 39 (and all the previous versions of IFRS 9). It contains requirements for the classification and measurement of financial assets and financial liabilities, impairment, hedge accounting and de-recognition:</p> <ul style="list-style-type: none"> • IFRS 9 requires all recognised financial assets to be subsequently measured at amortised cost or fair value (through profit or loss or through other comprehensive income), depending on their classification by reference to the business model within which they are held and their contractual cash flow characteristics. • For financial liabilities, the most significant effect of IFRS 9 relates to cases where the fair value option is taken: the amount of change in fair value of a financial liability designated as at fair value through profit or loss that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income (rather than in profit or loss), unless this creates an accounting mismatch • For the impairment of financial assets, IFRS 9 introduces an “expected credit loss” model based on the concept of providing for expected losses at inception of a contract; it will no longer be necessary for there to be objective evidence of impairment before a credit loss is recognised. • For hedge accounting, IFRS 9 introduces a substantial overhaul allowing financial statements to better reflect how risk management activities are undertaken

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Standard	Effective Date	Impact
		when hedging financial and nonfinancial risk exposures. <ul style="list-style-type: none">• The de-recognition provisions are carried over almost unchanged from IAS 39.
IFRS 16: <i>Leases</i> (issued in January 2016)	1 Jan 2019	The new standard introduces a new lessee accounting model, and will require a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee will be required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

The Directors do not plan to apply any of the above until they become effective. Based on their assessment of the potential impact of application of the above, they do not expect that there will be a significant impact on the company's financial statements.

iii) Early adoption of standards

The entity did not early – adopt any new or amended standards in year 2017.

(D) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Revenue Recognition

Revenue is recognised to the extent that it is probable that future economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is recognised at the fair value of consideration received or expected to be received in the ordinary course of the Company's activities, net of value-added tax (VAT), where applicable, and when specific criteria have been met for each of the Company's activities as described below.

- i) **Revenue from the sale of goods and services** is recognised in the year in which the Company delivers products to the customer, the customer has accepted the products and collect ability of the related receivables is reasonably assured.
- ii) **Grants from National Government** are recognised in the year in which the Company actually receives such grants. These grants are included as part of capital under the statement of changes in equity.
- iii) **Finance income** comprises interest receivable from bank deposits and investment in securities, and is recognised in profit or loss on a time proportion basis using the effective interest rate method.

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NOTES TO FINANCIAL STATEMENTS (Continued)

- iv) **Dividend income** is recognised in the income statement in the year in which the right to receive the payment is established.
- v) **Rental income** is recognised in the income statement as it accrues using the effective lease agreements.
- vi) **Other income** is recognised as it accrues.

b) Property, Plant and Equipment

All categories of property, plant and equipment are initially recorded at cost less accumulated depreciation and impairment losses.

Certain categories of property, plant and equipment are subsequently carried at re-valued amounts, being their fair value at the date of re-valuation less any subsequent accumulated depreciation and impairment losses. Where re-measurement at re-valued amounts is desired, all items in an asset category are re-valued through periodic valuations carried out by independent external valuers.

Increases in the carrying amounts of assets arising from re-valuation are credited to other comprehensive income. Decreases that offset previous increases in the carrying amount of the same asset are charged against the revaluation reserve account; all other decreases are charged to profit or loss in the income statement.

Gains and losses on disposal of items of property, plant and equipment are determined by comparing the proceeds from the disposal with the net carrying amount of the items, and are recognised in profit or loss in the income statement.

c) Depreciation and Impairment of Property, Plant and Equipment

Freehold land and capital work in progress are not depreciated. Capital work in progress relates mainly to the costs of ongoing but incomplete works on buildings and other civil works and installations.

Depreciation on property, plant and equipment is recognised in the income statement on a straight-line basis to write down the cost of each asset or the re-valued amount to its residual value over its estimated useful life.

The annual rates in use are:

Buildings and civil works	40 years or the unexpired lease period
Plant and machinery	12.5 years
Motor vehicles, including motor cycles	5 years
Computers and related equipment	5 years
Office equipment	12.5 years
Office furniture and fittings	10 years

NOTES TO FINANCIAL STATEMENTS (Continued)

d) Depreciation and Impairment of Property, Plant and Equipment (Continued)

Items of property, plant and equipment are reviewed annually for impairment. Where the carrying amount of an asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognised so that the asset is written down immediately to its estimated recoverable amount.

e) Intangible Assets

Intangible assets comprise purchased computer software licences, which are capitalised on the basis of costs incurred to acquire and bring to use the specific software.

These costs are amortised over the estimated useful life of the intangible assets from the year that they are available for use over ten years.

f) Amortisation and Impairment of Intangible Assets

Amortisation is calculated on the straight-line basis over the estimated useful life of computer software over years.

All computer software is reviewed annually for impairment. Where the carrying amount of an intangible asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognised so that the asset is written down immediately to its estimated recoverable amount.

g) Investment Property

Buildings, or part of a building (freehold or held under a finance lease) and land (freehold or held under an operating lease) held for long term rental yields and/or capital appreciation, and which are not occupied by the Company, are classified as investment property under non-current assets.

Investment property is carried at fair value, representing open market value determined periodically by independent external values. Changes in fair values are included in profit or loss in the income statement.

h) Unquoted Investments

Unquoted investments are stated at cost under non-current assets, and comprise equity shares held in other Government owned or controlled entities.

i) Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of inventories comprises purchase price, import duties, transportation and handing charges, and is determined on the moving average price method.

NOTES TO FINANCIAL STATEMENTS (Continued)

j) Trade and Other Receivables

Trade and other receivables are recognised at fair values less allowances for any uncollectible amounts. These are assessed for impairment on a continuing basis. An estimate is made of doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off after all efforts at recovery have been exhausted.

k) Taxation

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted as at the reporting date. Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

Deferred income tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

l) Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand and cash at bank. Bank account balances include amounts held at various commercial banks at the end of the financial year.

m) Borrowings

Interest bearing loans and overdrafts are initially recorded at fair value being received, net of issue costs associated with the borrowing. Subsequently, these are measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue cost and any discount or premium on settlement.

Finance charges, including premiums payable of settlement or redemption are accounted for on accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise. Loan interest accruing during the construction of a project is capitalised as part of the cost of the project.

n) Trade and Other Payables

Trade and other payables are non-interest bearing and are carried at amortised cost, which is measured at the fair value of contractual value of the consideration to be paid in future in respect of goods and services supplied, whether billed to the Company or not, less any payments made to the suppliers.

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NOTES TO FINANCIAL STATEMENTS (Continued)

o) Retirement Benefit Obligations

The entity operates a defined contribution scheme for all full-time employees from July 1, 2011. The scheme is administered by an in-house team and is funded by contributions from both the company and its employees.

The company also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The company's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at Kshs.200 per employee per month.

p) Provision for Staff Leave Pay

Employees' entitlements to annual leave are recognised as they accrue at the employees. A provision is made for the estimated liability for annual leave at the reporting date.

q) Exchange Rate Differences

The accounting records are maintained in the functional currency of the primary economic environment in which the Company operates, Kenya Shillings. Transactions in foreign currencies during the year/period are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Any foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised as in profit or loss.

r) Comparative Figures

Where necessary comparative figures for the previous financial year have been amended or reconfigured to conform to the required changes in presentation.

s) Subsequent Events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2016.

t) Provision for Bad and Doubtful Debts

The organization applies the banking regulations issued by the Central Bank on risk classification for loans and provisioning for bad and doubtful loans, using prudential guidelines as shown in table below:

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Category	Classification	Provisioning
A	Normal class (0-30 days)	general provision of 1% of loan balance
B	Watch class (31-90 days)	general provision of 2% of loan balance
C	Sub-standard class (91-180 days)	20% of loan balance less suspended interest
D	Doubtful class (181-365 days)	100% of loan balance less suspended interest
E	Loss class (365 days)	100% of loan balance less security

u) Critical Accounting Estimates and Judgement

In the process of applying the Corporation's accounting policies, management has made estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key area of judgement in applying the entities accounting policies is dealt with below:

v) Impairment Losses

At the end of each reporting period, the Corporation reviews the carrying amounts of its financial assets to determine whether there is any indication that those assets have suffered an impairment loss. A financial asset or a group of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that the loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

Where it is not possible to estimate the recoverable amount of an individual asset, the Corporation estimates the recoverable amount of the cash generating unit to which the asset belongs.

w) Provision for Ex-staff Imprest and Advances

The company makes estimates of doubtful receivables in relation to ex-staff imprest and advances and makes provision based on the estimates. Bad debts in relation to ex-staff and advances are written off after all efforts at recovery have been exhausted.

x) Impairment Losses on Loans and Advances

The estimation of potential credit losses is inherently uncertain and depends upon many factors, including general economic conditions, changes in individual customers' circumstances, structural changes within industries that alter competitive positions and other

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For the year ended June 30, 2018

NOTES TO FINANCIAL STATEMENTS (Continued)

external factors such as legal and regulatory requirements. Impairment is measured for all accounts that are identified as non-performing. All relevant considerations that have a bearing on the expected future cash flows are taken into account which include but not limited to future business prospects for the customer and realizable value of security. Subjective judgements are made in this process of cash flow determination both in value and timing and may vary from one person to another. Judgements may also change with time as new information becomes available.

The company review its loans and advances at each reporting date to assess whether an allowance for impairment should be recognized in profit or loss. Judgement is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions on a number of factors.

y) Income Taxes

Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax balances and deferred tax provisions in the period in which such determination is made.

z) Deferred Tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except in respect of taxable temporary differences associated with investments in controlled entities, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except in respect of deductible temporary differences associated with investments in controlled entities, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

Kenya Industrial Estates Limited

Reports and Financial Statements

For the year ended June 30, 2018

NOTES TO FINANCIAL STATEMENTS (Continued)

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside surplus or deficit is recognized outside surplus or deficit. Deferred tax items are recognized in correlation to the underlying transaction in net assets. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets and they relate to income taxes levied by the same tax authority on the same taxable entity or on different tax entities, but they intend to settle current tax assets and liabilities on a net basis or their tax assets and liabilities will be realized simultaneously. In determining the amount of current and deferred tax, the Group considers the impact of tax exposures, including whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the company to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities would impact tax expense in the period in which such a determination is made.

aa) Property, plant and equipment

Property, plant and equipment are depreciated over its useful life taking into consideration residual values. Critical estimates are made by management in determining the depreciation rates based on reasonable estimates of the useful life of the assets.

bb) Going Concern

The Board of Directors and Management have evaluated the going concern status of the company and have no reason to believe the company will not be in operation in the next financial year because the company is funded by the Government through budgetary allocations. In making this judgement the directors and management have made reasonable estimates and judgement on the budgetary allocation expected from government.

Kenya Industrial Estates Limited

Reports and Financial Statements

For the year ended June 30, 2018

NOTES TO FINANCIAL STATEMENTS (Continued)

cc) Related parties

In the normal course of business, the company has entered into transactions with related parties. The related party transactions are at arm's length.

Kenya Industrial Estates Limited

Reports and Financial Statements

For the year ended June 30, 2018

NOTES TO FINANCIAL STATEMENTS (Continued)

	2018 Kshs'000	2017 Kshs'000
1. INTEREST INCOME		
Loans	65,011	74,415
Mortgage	30	26
Staff Loans	433	376
	<u>65,474</u>	<u>74,817</u>
	=====	=====

2. GRANTS FROM NATIONAL GOVERNMENT		
Recurrent grants received	97,700	107,600
Capital grants received	196,394	350,000
	<u>294,094</u>	<u>457,600</u>
	=====	=====

Name of the Entity sending the grant	Amount recognized to Statement of Comprehensive Income Ksh'000	Amount deferred under deferred income Kshs'000	Amount recognised in capital fund Kshs'000	Total grant income during the year Kshs;000	2016-2017 Kshs'000
State Department of Investment and Industry	97,700		196,394	294,094	457,600
Total	97,700		196,394	294,094	457,600

3. RENT INCOME		
Rent Income per quarter		
1 st quarter	13,702	12,387
2 nd quarter	13,866	12,630
3 rd quarter	13,919	12,783
4 th quarter	13,871	13,272
	<u>55,358</u>	<u>51,072</u>
	=====	=====

Rent income is net of Value Added Tax (VAT)

Kenya Industrial Estates Limited**Reports and Financial Statements****For the year ended June 30, 2018****NOTES TO THE FINANCIAL STATEMENTS (Continued)**

	2018 Kshs'000	2017 Kshs'000
4. COMMISSIONS & CHARGES		
Loan Processing Charges	8,637	10,345
Fines and penalties	265	934
	<u>8,902</u>	<u>11,279</u>
5. OTHER INCOME		
Sale of tender documents	4	52
Business Development Services Income	3,545	1,787
Miscellaneous receipts	<u>5,050</u>	<u>7,410</u>
	<u>8,599</u>	<u>9,249</u>
6(a) ADMINISTRATION COSTS		
Electricity and water	2,705	3,869
Communication services and supplies	10,280	10,727
Transportation, travelling and subsistence	22,331	16,325
Advertising, printing, stationery and photocopying	15,236	10,641
Rent and Rates expenses	4,971	2,783
Hospitality supplies and services	85	236
Insurance costs	11,600	12,111
Bank charges and commissions	1,828	2,048
Office and general supplies and services	7,689	6,783
Auditors' remuneration	696	628
Legal fees	2,372	1,833
Consultancy fees	8,615	5,723
Repairs and maintenance	6,157	2,558
Other operating expenses	<u>18,226</u>	<u>15,777</u>
	<u>112,791</u>	<u>92,042</u>
6(b) STAFF COSTS		
Salaries and allowances of permanent employees	183,331	176,766
Staff Training Expenses	7,817	6,223
Medical Expenses	17,670	2,553
Staff Welfare	1,699	1,004
Wages of temporary employees	1,582	1,596
Compulsory national social security schemes	568	535
Other pension contributions	15,812	16,265
Leave pay and Gratuity provisions	<u>1,488</u>	<u>6,411</u>
	<u>229,967</u>	<u>211,353</u>

Kenya Industrial Estates Limited**Reports and Financial Statements****For the year ended June 30, 2018****NOTES TO THE FINANCIAL STATEMENTS (Continued)**

	2018 Kshs'000	2017 Kshs'000
The average number of employees at the end of the year was:		
Permanent employees – Management	23	47
Permanent employees – Technical and Support Staff	211	187
Temporary and contract employees	2	6
	<u>236</u>	<u>240</u>
	=====	=====
6 (c) DIRECTORS EMOLUMENTS		
Sitting Allowances	4,460	6,572
Honoraria	-	870
Other Allowances	6,279	7,043
	<u>10,739</u>	<u>14,485</u>
	=====	=====
7 OPERATING PROFIT / (LOSS)		
The operating profit / (loss) is arrived at, after charging/ (crediting):		
Staff costs (note 7b)	229,967	211,353
Amortization and Depreciation	33,241	41,659
Directors' emoluments - fees	10,739	14,485
Auditors' remuneration - current year fees	696	628
Interest receivable	65,474	74,817
Interest payable	27,068	27,033
Rent receivable	55,358	51,072
	<u>422,543</u>	<u>421,047</u>
	=====	=====
8. FINANCE INCOME		
Interest income on Bank account balance	4,350	1,776
	<u>4,350</u>	<u>1,776</u>
	=====	=====
9. FINANCE COSTS		
Accrued Interest expense on loans		
GOK Loan	9,981	9,967
KFW Loan	5,576	5,569
IDA I Loan	2,871	2,867
IDA II Loan	1,099	1,098
ADF Loan	7,541	7,532
	<u>27,068</u>	<u>27,033</u>
	=====	=====

Kenya Industrial Estates Limited

Reports and Financial Statements

For the year ended June 30, 2018

NOTES TO THE FINANCIAL STATEMENTS (Continued)

10. PROVISION FOR BAD DEBTS WRITE BACK

	2018 Kshs'000	2017 Kshs'000
Provision for bad debts Write Back	6,322	5,670
	<u>6,322</u> =====	<u>5,670</u> =====

Type of provisions	Loans Kshs'000	Mortgages Kshs'000	Leave		Rent Kshs'000	write off Kshs'000	Total Kshs'000
			provision Kshs'000				
General provision	709	4	-		-	-	713
Specific provision	6,850	-	-		-	-	6,850
Write back/off	-	-	7,533		(5,428)	(3,346)	(1,241)
Total Provision	7,559	4	7,533		(5,428)	(3,346)	6,322

11. TAXATION

	2018 Kshs'000	2017 Kshs'000
Current Tax	653	266
Tax Arrears	-	-
Deferred Tax Credit/ Charge	(1,649)	558
	<u>(996)</u> =====	<u>824</u> =====

The tax on the company's (loss) before tax differs from the theoretical amount that would arise using the basic rate as follows:

Loss before Tax	<u>(167,101)</u>	<u>(125,109)</u>
Tax calculated at rate of 30% (2018: 30%)	(50,130)	(37,533)
Tax effect of:		
- Income not subject to tax	(-)	(-)
Tax losses carried forward	49,135	38,357
Tax Arrears	-	-
Tax Credit/Tax charge	<u>(996)</u> =====	<u>824</u> =====

NOTES TO THE FINANCIAL STATEMENTS (Continued)

The tax arrears relates to tax liability owed to Tax Authority as from 1995 to 2002. This has been settled. Deferred tax charge had not previously been incorporated in the financial statements and has now been restated.

12. EARNINGS PER SHARE

The earnings per share is calculated by dividing the profit after tax of Kshs. (166,105,000) (2017: Kshs. (125,933,000) by the average number of ordinary shares in issue during the year of 4,013,865 (2017: 4,013,865). There were not dilutive or potentially dilutive ordinary share as at the reporting date.

13. DIVIDEND PER SHARE

Proposed dividends are accounted for as a separate component of equity until they have been ratified and declared at the relevant Annual General Meeting (AGM). At the AGM to be held before the end of 2018, no dividend in respect of the year ended June 30, 2018 shall be proposed just like year 2017 when no dividend was proposed.

Kenya Industrial Estates Limited

**Reports and Financial Statements
For the year ended June 30, 2018**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

14. PROPERTY, PLANT AND EQUIPMENT Kshs'000

2018	Buildings & civil works	Office equipment	Motor vehicles, including, motor cycles	Computers & related equipment	furniture & fittings	Capital work in progress	TOTAL
COST OR VALUATION							
At July 1, 2017	464,862	51,392	61,750	41,019	51,224	703,613	1,373,860
Additions	-	1,399	-	398	-	23,881	25,678
Disposals	-	(185)	-	-	-	-	(185)
Adjustments	5,967	-	-	-	-	(433,785)	(427,818)
At June 30, 2018	470,829	52,606	61,750	41,417	51,224	293,709	971,535
DEPRECIATION							
At July 1, 2017	57,386	17,102	61,075	30,526	17,083	-	183,172
Charge for the year	14,490	4,866	675	408	3,528	-	23,967
Elimination on disposal	-	(111)	-	(4)	-	-	(115)
At June 30, 2018	71,876	21,857	61,750	30,930	20,611	-	207,024
NET BOOK VALUES							
At June 30, 2018	398,953	30,749	-	10,487	30,613	293,709	764,511

Property, plant and equipment include the following items that are fully depreciated:

	Cost or Valuation	Normal Annual depreciation charge
Office equipment	-	12.5%
Motor vehicles, including motor cycles	-	20%
Computers and related equipment	-	20%
Furniture and fittings	-	10%
	-----	-----
	-	-
	=====	=====

Kenya Industrial Estates Limited

Reports and Financial Statements

For the year ended June 30, 2018

NOTES TO THE FINANCIAL STATEMENTS (Continued)

14 PROPERTY, PLANT AND EQUIPMENT Kshs'000

2017	Buildings & civil works	Office equipment	Motor vehicles, including, motor cycles	Computers & related equipment	furniture & fittings	Capital work in progress	TOTAL
COST OR VALUATION							
At July 1, 2016	464,343	51,341	61,750	40,277	51,094	666,254	1,335,059
Additions	519	51	-	742	130	40,141	41,583
Disposals	-	-	-	-	-	-	-
Adjustments	-	-	-	-	-	(2,782)	(2,782)
At June 30, 2017	464,862	51,392	61,750	41,019	51,224	703,613	1,373,860
DEPRECIATION							
At July 1, 2016	42,952	12,256	55,973	26,038	13,573	-	150,792
Charge for the year	14,434	4,846	5,102	4,488	3,510	-	32,380
Elimination on disposal	-	-	-	-	-	-	-
At June 30, 2017	57,386	17,102	61,075	30,526	17,083	-	183,172
NET BOOK VALUES							
At June 30, 2017	407,476	34,290	675	10,493	34,141	703,613	1,190,688

Property, plant and equipment include the following items that are fully depreciated:

	Cost or Valuation	Normal Annual depreciation charge
Office equipment	-	12.5%
Motor vehicles, including motor cycles	-	20%
Computers and related equipment	-	20%
Furniture and fittings	-	10%
	-----	-----
	-	-
	=====	=====

Kenya Industrial Estates Limited**Reports and Financial Statements****For the year ended June 30, 2018****NOTES TO THE FINANCIAL STATEMENTS (Continued)**

	2018 Kshs'000	2017 Kshs'000
15. LEASEHOLD LAND		
COST		
At July 1	537,335	537,335
Elimination	-	-
Revaluation	-	-
Additions	-	-
Adjustments	-	-
At June 30	<u>537,335</u>	<u>537,335</u>
AMORTISATION		
At July 1	23,991	18,819
Elimination	-	-
Charge for the year	5,167	5,172
Disposals	-	-
Impairment loss	-	-
At June 30	<u>29,158</u>	<u>23,991</u>
NET BOOK VALUE		
At June 30	<u>508,177</u>	<u>513,344</u>
16. INTANGIBLE ASSETS		
COST		
At July 1	48,126	48,126
Additions	-	-
Disposals	-	-
At June 30	<u>48,126</u>	<u>48,126</u>
AMORTISATION		
At July 1	24,985	20,878
Charge for the year	4,107	4,107
Disposals	-	-
Impairment loss	-	-
At June 30	<u>29,092</u>	<u>24,985</u>
NET BOOK VALUE		
At June 30	<u>19,034</u>	<u>23,141</u>

Kenya Industrial Estates Limited

Reports and Financial Statements

For the year ended June 30, 2018

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2018 Kshs'000	2017 Kshs'000
17. INVESTMENT PROPERTY		
Opening valuation	577,360	575,848
Movements during the year		
Transfer from WIP	412,510	-
Additions	-	1,425
Adjustments	14,995	87
Disposal	-	-
Fair value gains/ (Losses)	-	-
Closing valuation	<u>1,004,865</u>	<u>577,360</u>
AMORTISATION		
At July 1	-	-
Charge for the year	-	-
Disposals	-	-
Impairment loss	-	-
At June 30	<u>1,004,865</u>	<u>577,360</u>
NET BOOK VALUE		
At June 30	<u>1,004,865</u>	<u>577,360</u>

18. UNQUOTED INVESTMENTS

	Level 1 Kshs '000	Level 2 Kshs '000	Level 3 Kshs '000	Total Kshs '000
At 30 June 2017:				
Investment in shares – Available-for-sale	-	11,200	-	11,200
As at 30 June 2018:				
Investment in shares – Available-for-sale	-	11,200	-	11,200

The unquoted investment relate to investment of 440,000 non-cumulative preference shares of Kshs.20 each and 120,000 ordinary shares of Kshs.20 each at Consolidated Bank of Kenya Ltd.

	2018 Kshs'000	2017 Kshs'000
19. LOANS		
Loan gross	1,031,968	1,013,742
Interest suspended	(268,163)	(272,851)
Specific provision	(27,430)	(35,839)
General provision	1,212	457
Net loan balance	<u>737,587</u>	<u>705,509</u>

Kenya Industrial Estates Limited**Reports and Financial Statements****For the year ended June 30, 2018****NOTES TO THE FINANCIAL STATEMENTS (Continued)**

	2018 Kshs'000	2017 Kshs'000
20. INVENTORIES		
Stationery and general stores	6,294	5,533
Less obsolete stock	(164)	(164)
	<u>6,130</u>	<u>5,369</u>
	=====	=====
21 (a) TRADE AND OTHER RECEIVABLES		
Trade receivables	247,279	155,283
Deposits and prepayments	-	-
Staff receivable (note 21 (c (i)))	3,920	3,861
Other receivables	-	-
	<u>251,199</u>	<u>159,144</u>
Gross trade and other receivables		
Provision for bad and doubtful receivables	(128,212)	(123,046)
	<u>122,987</u>	<u>36,098</u>
	=====	=====
Net trade and other receivables		
At June 30, the ageing analysis of the gross trade receivables was as follows:		
Less than 30 days	99,297	1,237
Between 31 and 60 days	927	14,408
Between 61 and 90 days	871	1,520
Between 91 and 120 days	543	996
Over 120 days	149,561	140,983
	<u>251,199</u>	<u>159,144</u>
	=====	=====
21 (b) STAFF RECEIVABLES		
Staff loans	14,816	13,848
Interest suspended	(4,219)	(4,169)
Specific provision	(136)	(136)
General provision	165	175
	<u>10,626</u>	<u>9,718</u>
	=====	=====
21 (c) (i) STAFF RECEIVABLES		
Staff advances and imprest	3,920	3,861
Provision for staff advances and imprest	(2,171)	(2,171)
	<u>1,749</u>	<u>1,690</u>
	=====	=====
Amounts due within an year		

Kenya Industrial Estates Limited**Reports and Financial Statements****For the year ended June 30, 2018****NOTES TO THE FINANCIAL STATEMENTS (Continued)**

	2018	2017
	Kshs'000	Kshs'000
22 BANK AND CASH BALANCES		
Cash at bank:		
Standard Chartered Bank	121,652	111,710
Kenya Commercial Bank Ltd	14,397	76,718
National Bank of Kenya	59	25,382
Co-operative Bank of Kenya	219	176
M-Pesa	613	610
Cash in hand	288	427
	<u>137,228</u>	<u>215,023</u>
Bank overdraft	(1,885)	(17)
	<u>135,343</u>	<u>215,006</u>
	=====	=====

The bulk of the cash at bank was held at Standard Chartered Bank Kenya Limited and Kenya Commercial Bank. These are the main company's bankers including National Bank of Kenya Limited. The bank overdraft refers to overdrawn ledger balances but not bank account balances.

23 ORDINARY SHARE CAPITAL

	Kshs'000	Kshs'000
Authorised:		
10,000,000 ordinary shares of Kshs.20 par value each	200,000	200,000
	=====	=====
Issued and fully paid:		
4,013,865 ordinary shares of Kshs.20 par value each	80,277	80,277
	=====	=====

	Kshs'000	Kshs'000
24 RESERVES		
Capital Reserves	22,523	22,523
Disposal of sheds	68,637	68,637
GOK Irredeemable Loans	190,257	190,257
Revaluation Reserves	838,405	838,405
Grants	3,631,659	3,435,265
Retained Earnings	(3,111,014)	(2,948,028)
	<u>1,640,467</u>	<u>1,607,059</u>
	=====	=====

CAPITAL RESERVES

This relates to assets donated to the company by development partners

DISPOSAL OF SHEDS

This relates to profit on disposal of company sheds between 1990 and 2008

Kenya Industrial Estates Limited

Reports and Financial Statements

For the year ended June 30, 2018

NOTES TO THE FINANCIAL STATEMENTS (Continued)

GOK IRREDEEMABLE LOANS

The amount of Kshs.190, 257,000.00 includes book value of Kshs.137, 900,000.00 industrial sheds constructed as at 30th June, 1985 from Government of Kenya loans and Kshs.52, 266,000.00 accrued interests on Government of Kenya loans up to 30th June, 1985. These loans are irredeemable subordinated to equity and bear no interest.

REVALUATION RESERVE

The revaluation reserve relates to the revaluation of certain items of property, plant and equipment. As indicated in the Statement of Changes in Equity, this is stated after transfer of excess depreciation net of related deferred tax to retained earnings. Revaluation surpluses are not distributable.

GRANTS

This refers to grants from the Government and other donor partners. These are included in the reserves under statement of changes in equity.

RETAINED EARNINGS

The retained earnings represent amounts available for distribution to the company shareholders. Undistributed retained earnings are utilised to finance the company's business activities.

25	BORROWINGS	Kshs'000	Kshs' 000
	Balance at beginning of the year	1,422,450	1,403,417
	Interest Accrued	27,068	27,033
	Repayments of domestics borrowings during the year	(11,000)	(8,000)
	Adjustment of domestics borrowings (WEDF) during the year	(-)	(-)
	Balance at end of the year	1,438,518	1,422,450
	Less: Amounts due within one year (current portion)	(1,438,518)	(1,422,450)
	Amounts due after one year (non-current portion)	-	-
		=====	=====
	The analyses of both external and domestic borrowings are as follows:		
	External Borrowings		
	Dollar denominated loan from 'A'	892,502	875,415
		892,502	875,415
	Domestic Borrowings		
	Kenya Shilling loan from Youth Enterprise Fund	11,709	22,709
	Kenya Shilling loan from Women Enterprise Fund	-	-
	Kenya Shilling loan from GOK	534,307	524,326
		546,016	547,035
	Total balance at end of year	1,438,518	1,422,450
		=====	=====

Kenya Industrial Estates Limited**Reports and Financial Statements****For the year ended June 30, 2018****NOTES TO THE FINANCIAL STATEMENTS (Continued)**

	2018	2017
	Kshs'000	Kshs'000
a) Analysis of changes in Borrowings		
Balance at beginning of the year	1,422,450	1,403,417
Receipts during the year	-	-
Repayments during the year	(11,000)	(8,000)
Adjustment of previous year accrued interest	(-)	(-)
Foreign exchange (gains)/losses	-	-
Accrued interest	27,068	27,033
Balance at end of the year	<u>1,438,518</u>	<u>1,422,450</u>
	=====	=====
b) Analysis of Interest Paid		
Interest on loans (note 9)	27,068	27,033
	<u>27,068</u>	<u>27,033</u>
Interest on loans capitalised	27,068	27,033
Balance at beginning of the year	658,233	631,645
Adjustment of domestic borrowings (WEDF) during the year	-	(445)
Balance at end of the year	<u>(685,301)</u>	<u>(658,233)</u>
	=====	=====
Interest paid	-	-
	=====	=====
26 TRADE AND OTHER PAYABLES		
Trade payables	22,103	30,581
Other payables	98,972	97,761
	<u>121,075</u>	<u>128,342</u>
	=====	=====

27 RETIREMENT BENEFIT OBLIGATIONS

The company operates a defined contribution scheme for all full-time employees. The scheme is administered by an external administrator. All contributions from both the company and its employees are remitted to the fund manager and the administrator is informed.

The company also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The company's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at Kshs.200.00 per employee per month.

Kenya Industrial Estates Limited**Reports and Financial Statements****For the year ended June 30, 2018****NOTES TO THE FINANCIAL STATEMENTS (Continued)**

	2018	2017
28 PROVISION FOR LEAVE PAY	Kshs'000	Kshs'000
Balance at beginning of the year	13,442	8,271
Additional provision at end of year	(7,533)	5,171
Leave paid out or utilised during the year	-	-
Balance at end of the year	<u>5,909</u>	<u>13,442</u>

Provision for annual leave pay is based on services rendered by full-time employees up to the end of the year.

29 NOTES TO THE STATEMENT OF CASH FLOWS**a) Reconciliation of operating Profit / (Loss) to Cash generated from / (used in) operations**

	Kshs'000	Kshs'000
Operating Profit / (Loss)	(150,705)	(105,522)
Depreciation and Amortization	33,241	41,659
Rent Income	(55,358)	(51,072)
Other Income	(17,501)	(20,528)
Interest Income	(65,474)	(74,817)
Operating Profit/ (Loss) Before Working Capital Changes	<u>(255,797)</u>	<u>(210,280)</u>
Increase in Inventories	(761)	33
Increase in trade and other Receivables	(86,889)	5,057
Decrease in trade and other Payables	(7,267)	(37,631)
Decrease in Provision for Staff Leave Pay	(7,533)	5,171
Accrued Interest Payables	27,068	27,033
Advances to Customers	(210,251)	(268,935)
Collection from Loans, Rent, Mortgage & Other Income	297,701	326,845
Cash Generated from/ (used in) Operations	<u>(243,729)</u>	<u>(152,707)</u>

b) Analysis of Cash and Cash Equivalents

Cash at bank	135,055	214,579
Cash in hand	288	427
Balance at end of the year	<u>135,343</u>	<u>215,006</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

c) Disclosure on changes in Financing Cash flow:-

- i. GOK Grant- This is grant from National Government given to support the company's development activities. The grant is not refundable.
- ii. Repayment of Borrowing- This relates to repayment of loan to Youth Enterprise Development Fund.

30 RELATED PARTY DISCLOSURES

Companies and other parties related to the company include those parties who have ability to exercise control or exercise significant influence over its operating and financial decisions. Related parties include management personnel, their associates and close family members.

The Group is related to:

- Government of Kenya
- Board of Directors

(a) Government of Kenya

The Government of Kenya is the principal shareholder of the company, holding 100% of the company's equity interest. The Government of Kenya has provided full guarantees to all long-term lenders of the company, both domestic and external. Government of Kenya provides both development and recurrent grants to the organization.

	2018	2017
	Kshs'000	Kshs'000
GOK Transfers	<u>294,094</u>	<u>457,600</u>

(b) Directors Remuneration

	2018	2017
	Kshs'000	Kshs'000
Directors	10,739	14,485
	=====	=====

(c) Management Compensation

The remuneration of directors and other members of key management during the period were as follows:

	2018	2017
	Kshs'000	Kshs'000
Compensation to the Directors	10,739	14,485
Compensation to the CEO	5,400	5,400
Compensation to key management	<u>28,422</u>	<u>25,350</u>
	<u>44,561</u>	<u>45,235</u>

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

(d) Loans to Key Management

Car Loans	<u>1,982</u>	<u>2,418</u>
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31 CAPITAL COMMITMENTS	Kshs'000	Kshs'000
Amounts authorised and contracted for	739,121	739,121
Less: Amounts incurred and included in work-in-progress	(599,104)	(599,104)
	<u>140,017</u>	<u>140,017</u>
	=====	=====

32 CONTINGENT LIABILITIES

a) BANK OVERDRAFT	Kshs'000	Kshs'000
Bank overdraft	3,422	3,422
Legal claims against the company	-	-
	<u>3,422</u>	<u>3,422</u>
	=====	=====

The company may be required to pay interest on the Bank Overdraft of Kshs.3.422 million with Continental Bank. The interest is expected to accrue from the date the Bank was placed under official Receivership. However, assurance in writing had been given that the interest charged in excess of the interest receivable from deposits will be borne by the Continental Credit Finance, these were related Institutions.

b) Land and Buildings

There is disputed ownership of staff houses in Eldoret where titles were obtained fraudulently. The company went to court and obtained a favourable judgement. The parties however, have appealed against the favourable judgement. The property is valued at Ksh.191M. There are also other parcels of land whose ownership is in dispute. These have been forwarded to National Land Commission.

c) Corporation Tax

This exists for the Financial Years 1997 and 1998 where the company has filed for relief in respect of error under section 90 of the Income Tax Act. The liability came as result of the company erroneously making a general provision for loans instead of specific provision which is an allowable deduction in tax computation. The errors in the two years caused the company to incur tax liability amounting to Kshs.34.8 Million. This amount has accumulated interest and penalties making the total contingent liability to be Kshs.109.8 Million as at 30th June, 2016.

Kenya Industrial Estates Limited**Reports and Financial Statements****For the year ended June 30, 2018****NOTES TO THE FINANCIAL STATEMENTS (Continued)****33 Deferred Taxation**

Deferred tax is calculated, in full, on all temporary timing differences under the liability method using a principal tax rate of 30% (2014: 30%). The movement on the deferred tax account is as follows:

	2018 Kshs'000	2017 Kshs'000
At start of year	35,863	35,305
Charge to profit or loss (Note 11)	<u>(1,649)</u>	<u>558</u>
At end of year	<u>34,214</u>	<u>35,863</u>

Deferred tax liabilities and (assets), deferred tax (credit)/charge to profit or loss are attributable to the following items:

	At start of year Ksh'000	Charge/ (credit) Ksh'000	At end of year Ksh'000
Deferred Tax Liabilities			
Property, Plant & Equipment	31,830	(5,149)	26,681
Provisions-Leave & Bad debts	<u>4,033</u>	<u>3,500</u>	<u>7,533</u>
Net Deferred Tax Liability	<u>35,863</u>	<u>(1,649)</u>	<u>34,214</u>
Deferred Tax (Assets)			
Tax losses carried forward	(-)	<u>0</u>	<u>0</u>
Net Deferred Tax Liability	<u>35,863</u>	<u>(1,649)</u>	<u>34,214</u>

Deferred tax liability had not previously been incorporated in the financial statements and has now been restated.

34 GRANTS

	2018 Kshs'000	2017 Kshs'000
Norwegian grant	146,039	146,039
EEC grant	1,857	1,857
GTZ grant for ISL	17,594	17,593
GTZ Rep. Financing grant	4,385	4,385
KFW grant for ISL loans	72,943	72,943
GTZ co-operation fund	3,705	3,705
GOK grant	3,367,170	3,170,777
UNDP grant	6,766	6,766
EEC grant	11,200	11,200
	<u>3,631,659</u>	<u>3,435,265</u>
	=====	=====

35 INCORPORATION

The company is incorporated in Kenya under the Kenyan Companies Act and is domiciled in Kenya.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

36 PROVISION FOR BAD AND DOUBTFUL DEBTS

The provision for bad debts includes provision on loans and mortgages made in the year and write backs on loans which were previously provided and were recovered in the year. Write offs during the year amounted to Ksh.96M.

37 CAPITAL RISK MANAGEMENT

The company's objectives when managing capital are to safeguard the company's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital.

Consistent with others in the industry, the company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and bank balance.

The analysis of capital managed by the company is as shown below:

	2018	2017
	Kshs'000	Kshs'000
Share Capital	80,277	80,277
Retained Earnings	(1,991,192)	(1,828,206)
Equity	<u>(1,910,915)</u>	<u>(1,747,929)</u>
Total Borrowings		
Local and external Loans	1,438,518	1,422,450
Bank Borrowings (Overdraft)	-	-
	<u>1,438,518</u>	<u>1,422,450</u>
Local and external Loans	1,438,518	1,422,450
Less Cash & Bank Balance	(137,228)	(215,023)
	<u>1,301,290</u>	<u>1,207,427</u>
Net Debt	=====	=====
Gearing	-68%	-69%
	=====	=====

38 FINANCIAL RISK MANAGEMENT

The company's activities expose it to a variety of financial risks including credit and liquidity risks, effects of changes in foreign currency and interest rates and changes in market rents. The company's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The most important types of risk for the company are credit, liquidity and market risk.

(a) Credit Risk Management

Credit risk refers to the risk that customers will default on their contractual obligations resulting in financial loss to the company. The company's credit risk is primarily attributable to liquid funds and loans advances and trade receivables. Credit risk on liquid funds is low because the counter parties are banks with high ratings assigned by the banking regulator. The company has a rigorous policy of analysis credit risk on loan advances.

The amount that best represents the company's maximum exposure to credit risk at 30th June is made up as follows:

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	2018 KShs'000	2017 KShs'000
Bank balance	136,940	214,596
Loans	737,587	705,509
Trade and other receivables	122,987	36,098
	<u>997,514</u>	<u>956,203</u>
	=====	=====

The carrying amount of financial assets (bank balances and trade receivables) recorded in the financial statements representing the company's maximum exposure to credit risk without taking account of the value of any collateral obtained is made up as follows:

	Fully performing Shs'000'	Past due Shs'000'	Impaired Shs'000'
At 30 June 2018			
Trade receivables	101,095	543	149,561
Bank balances	136,940	-	-
	<u>238,035</u>	<u>543</u>	<u>149,561</u>
At 30 June 2017			
Trade receivables	18,161	-	140,983
Bank balances	214,596	-	-
	<u>232,757</u>	<u>-</u>	<u>140,983</u>

The customers under the fully performing category are paying their debts as they continue trading. The credit risk associated with these receivables is minimal and the allowance for uncollectible amounts that the company has recognised in the financial statements is considered adequate to cover any potentially irrecoverable amounts.

The board of directors sets the company's credit policies and objectives and lays down parameters within which the various aspects of credit risk management are operated.

i) Credit Risk Measurement

The company assesses the probability of default of customers by applying the banking regulations issued by the Central Bank on risk classification for loans using prudential guidelines classifications. The customers of the company are segmented into five rating classes. The company's rating scale reflects the range of default probabilities defined for each rating class. This means that in principle, exposures migrate between classes as the assessment of their probability of default changes. The company regularly validates the performance of the rating and their predictive power with regard to default events.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Category	Classification
A	Normal
B	Watch
C	Sub-Standard
D	Doubtful
E	Loss

ii) Impairment and Allowance Policies

The company establishes an allowance for impairment losses that represents its estimate of incurred losses in its loans and advances portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures.

The other component is in respect of losses that have been incurred but have not been identified in relation to the loans and advances portfolio that is not specifically impaired.

The impairment allowance recognized in the statement of financial position at year end is derived from each of the five internal rating classes. However, impairment is largely composed of sub-standard, doubtful and loss classes.

	2018 Ksh'000'	2017 Ksh'000'
Individually Impaired		
Normal	320,447	320,079
Watch	56,322	61,852
Sub -Standard	36,254	26,775
Doubtful	1,740	501
Loss	<u>632,021</u>	<u>618,384</u>
Gross Amount	1,046,784	1,027,591
Allowance for Impairment	<u>(298,571)</u>	<u>(312,363)</u>
Carrying Amount	<u>748,213</u>	<u>715,228</u>

iii) Past due but not Impaired Loans

Past due but not impaired loans are those for which contractual interest or principal payments are past due, but the company believes that impairment is not appropriate on the basis of stage collection of amounts owed by the company. As at 30 June, the classifications of past due but not impaired and past due and impaired were as follows:

	2018 Ksh'000'	2017 Ksh'000'
Loans to Customers		
Past due but not Impaired	413,023	408,706
Past Due and Impaired	633,761	618,885
Impairment Allowance	<u>(298,571)</u>	<u>(312,363)</u>
Total	<u>748,213</u>	<u>715,228</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

(b) Liquidity Risk Management

Liquidity risk is the risk that the company will encounter difficulty in meeting obligations from financial liabilities. The ultimate responsibility for liquidity risk management rests with the Board of Directors. The company manages liquidity risk by maintaining banking facilities through continuous monitoring of forecasts and actual cash flows.

The analysis below shows the company's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the end of the reporting date. The amounts disclosed in the table below are undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

		Within 12 Months Kshs'000	Over 12 Months Kshs'000	
At 30th June 2018				
Borrowings		1,438,518	-	
Bank Overdraft		1,885	-	
		<u>1,440,403</u>	<u>-</u>	
		=====	=====	
		Kshs'000	Kshs'000	
At 30th June 2017				
Borrowings		1,422,450	-	
Bank Overdraft		17	-	
		<u>1,422,467</u>	<u>-</u>	
		=====	=====	
Trade and Other payables				
	Less than 1 month Sh '000'	Between 1-3 months Sh '000'	Over 5 months Sh '000'	Total Sh '000'
At 30 June 2018				
Trade payables	14,688	76	106,311	120,075
	=====	=====	=====	=====
At 30 June 2017				
Trade payables	1,805	894	125,643	128,342
	=====	=====	=====	=====

(c) Market Risk Management

The company takes on exposure to market risks, which is the risk that changes in market prices, such as interest rate and foreign exchange rates will affect the company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk. Monitoring of market risk is done by management in conjunction with the Board of Directors. Market risk exposures are measured by the use of sensitivity analyses. There has been no change to the company's exposure to market risks on the manner in which it manages and measures the risk. The market risk exposure for the company relates primarily to interest rate risks.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

i) Interest Rate Risk

The company is exposed to both cash flow and fair value interest rate risks. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The company takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. The company holds interest bearing assets in form of loans to customers.

A law has been passed to cap interest rates in the country which might affect interest rates on loans. However, this may not have a higher impact on company interest income because the rate the company has been charging is lower and its impact shall be felt in 2016/2017 financial year.

The interest rate risk exposure arises mainly from interest rate movements on the company's borrowings.

The company's borrowings comprise a loan and an overdraft facility from local financial institutions and other loans from international and multilateral institutions disclosed under note 20&23. The company ensures that interest charged on its borrowings is at the lowest rates possible.

The table below summarizes the estimated impact on profit of a 10 percentage point decline/increase in interest rates available from lenders: -

	2018 Kshs'000	2017 Kshs'000
±10%point decrease/increase in borrowing rate	144,040	142,245
	<u>=====</u>	<u>=====</u>

ii) Foreign Exchange Risk

The company has exposure to foreign currency risk. This arises from borrowings from International and multilateral disclosed under note 26.

External Borrowings	2018 Kshs'000	2017 Kshs' 000
Dollar denominated loan from 'A'		
IDA I Loan	134,580	131,709
IDA II Loan	55,825	54,727
KFW Loan	265,676	260,100
ADF Loan	436,421	428,879
	<u>892,502</u>	<u>875,415</u>

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

39 PRIOR YEAR ADJUSTMENTS

Kshs 3.119 Million prior adjustments relate expenses and interest income adjustments that were done in 2017/2018 Financial Year but related to previous year.

40 TRANSFER TO RETAINED PROFIT/LOSS

The (Kshs. 166,105,000) transfer to retained profit/loss is the loss realised by the company for the financial year ending 30th June 2018.

XVIII. PROGRESS REPORT ON PRIOR YEAR AUDIT MATTERS

The following is a summary of issues raised by the external auditors and management comments that were provided to the Auditors. We have nominated the focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

Ref No. on external Audit report	Issue/Observations from Auditor (2016/17 audit certificate issues)	Management comments	Focal Point person to resolve the issue	Status: (Resolved / Not Resolved)	Time frame :
1	<p>Financial Performance and Service Sustainability During the year under review, the Company reported a loss before tax of Kshs. 125,109,000 (2015/216: loss of Kshs. 174,030,000) which brought the cumulative reserves to a negative balance of Kshs. 2,948,028,000. In addition, the statement of financial position as at 30th June, 2017 reflects total current liabilities of Kshs. 1,564,251,000 against total current assets of Kshs. 256,490,000 in a negative working capital of Kshs. 1,307,761,000. as reported in the previous years, the Company is therefore technically insolvent and its existence as a going concern is dependent on continued support by government and creditors.</p>	<p>During the year under review 2016/2017 the company posted a loss before tax of Kshs125, 109,000. The Board and the management are cognizant of this situation and are committed to turnaround the organization. Towards this end, the organization is currently implementing a turnaround strategy whose objective is to make the company financially viable and self-sustaining. The strategy focuses on; growing loan portfolio to Kshs. 16.25 billion over the next four years, broadening product offering and target sectors and enhancing brand image and visibility. The organization has been earmarked a lead implementing agency of the BIG 4 government agenda under manufacturing and agro processing. The company is revamping its Business Advisory Services department and enhancing the company's image and visibility through a whole organizational rebranding, marketing initiatives, partnerships and stakeholder management.</p>	KIE Board	Not Resolved	31/12/2018

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Ref No. on external Audit report	Issue/Observations from Auditor (2016/17 audit certificate issues)	Management comments	Focal Point person to resolve the issue	Status: (Resolved / Not Resolved)	Time frame :
		<p>The strategy envisages the company will be profitable in the next two years. The Strategy has received support from the Ministry of Industry Trade and Cooperatives through budgetary allocation for both Development and Recurrent Expenditure. Regular Presentations have been made to both the Parent Ministry and the National Treasury on the company's funding gap and it is clear the organization requires additional funding despite the competing needs for the resources. The company remains optimistic that the organization funding levels will be enhanced.</p> <p>On Technical insolvency, the management concurs with your observation. The company has been working with the Ministry of Industrialization, Trade and Cooperatives and a Cabinet paper has already been prepared awaiting presentation to the cabinet to address issues of technical insolvency. The paper proposes waiver of legacy debts amounting to Kshs 1.42 Billion. On completion of the restructuring, the company will have a healthy balance sheet which can enable it to mobilize more resources and be able to effectively support Small and Medium Industries.</p>			
<p>2.0 2.1</p>	<p>Trade and Other Receivables Staff Receivables</p> <p>The trade and other receivables balance of Kshs. 36,098,000 as at June 2017 includes an amount of Kshs. 3,861,290 being accountable staff advances and imprest out of which, an amount of kshs. 2,171,247 relates to staff advances and imprest for staff who have since left the Company service. In the circumstances, it has not been possible to determine</p>	<p>This amount relates to staff imprest and advances for ex-staff who have since left the organization. The management has noted your observations. As per your earlier recommendations, this might be uneconomical to recover the monies owed by the Ex-staff owing to the time lapse and the amounts involved noting that efforts have been made to collect the monies by writing demand Letters to the ex-staff with minimal positive response. The Management had also brought on board debt collectors to assist in the collection.</p>	<p>FM</p>	<p>Not Resolved</p>	<p>31/12/2018</p>

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Ref No. on external Audit report	Issue/Observations from Auditor (2016/17 audit certificate issues)	Management comments	Focal Point person to resolve the issue	Status: (Resolved / Not Resolved)	Time frame :
	whether the balance of Kshs. 3,861,290 is recoverable.	<p>The management shall advise the board on the most appropriate action to take to avoid retaining these debts in the company books for a long time.</p> <p>To avoid recurrence of such ex-staff debts in future, the Management has tightened clearance procedures for employees leaving the organization. A clearance certificate for staff leaving the organization, which has to be signed-off in all departments, was introduced. Also imprest and staff advances accounts are monitored on a monthly basis and appropriate action taken in good time.</p>			
2.2	<p>Non Movement of Trade Receivables</p> <p>Further, the trade and other receivables balance as at 30 June 2017 includes sundry debtors amounting to Kshs. 18,621,631 out of which Kshs. 13,805,486 had no movement from the previous financial year. No explanation was given why these long outstanding balances have not been recovered and have been apparently carried forward from year to year without any appropriate action being taken.</p>	<p>The trade and other receivables for the financial year 2016/21017 were Kshs 13,805,486 of which Kshs 13,758,278.78 had no movement. The figure of Kshs 18,621,631 referred to in the Draft Audit report refers to trade and other receivables balance for the financial year 2015/2016 of which Kshs 10,746,930.20 had no movement. The Kshs 10,746,930.20 is inadvertently referred to as a Trade payable in the draft Audit report.</p> <p>The Kshs 13,805,486 amount comprises of trade debtors who relate to consultancy work done for Kisii, Meru, Kwale, Kajiado, Uasin Gishu, Homa-Bay and Nyamira Counties as shown in table 1. The company has managed to recover the debts from Meru, Kwale, Kajiado, Uasin Gishu, Transnzoia and is yet to be issued with withholding tax certificates to clear the balances as this related to taxes which were withheld by these counties which we are following up. Also, the company has made efforts by writing demand letters to County governments of Kisii, Kwale, Homabay and Nyamira on the outstanding debts and there is good progress. Though there has been challenge in</p>	FM/IEDI SM	Resolved	

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Ref No. on external Audit report	Issue/Observations from Auditor (2016/17 audit certificate issues)	Management comments	Focal Point person to resolve the issue	Status: (Resolved / Not Resolved)	Time frame:
		collections of these debts due to bureaucratic system, the county governments have committed to clear debts by year 2018/2019.			
3.0	<p>Trade and other Payables</p> <p>Trade and other payables balances of Kshs. 128,342,000 as at 30 June 2017 includes and amount of Kshs. 13,805,486 which had no movement from the previous year, casting doubt as they fail due.</p>	<p>The trade and other payable for the financial year 2016/2017 amounted to Kshs 128,342,000. The Kshs 13,805,486 referred to in the Draft Audit report relates to Trade and other receivables as shown in 2.2 above.</p>	FM	Resolved	
4.0	<p>Management of Loaning Portfolios</p> <p>The Management disbursed loans amounting to Kshs. 269.1 million compared to Kshs. 183.1 million in 2015/2016 financial year. However, as disclosed under Note 30(b) to the financial statements, the Company managed to recover only Kshs. 8,000,000 out of the outstanding loans of Kshs. 1,403,417,000. This translate to a partly 0.57% of the opening loans balance implying that a colossal amount of outstanding loans are not performing as expected despite the fact that the Company is struggling to break-even in its operations.</p>	<p>The Audit report inadvertently reports that the company collected Kshs.8.0 Million out of a loan portfolio of Kshs. 1,403,417. However, the Kshs 8,000, 000 in the report relates to repayment of loans owed by KIE to government and international financiers and not repayment from loans disbursed to MSMEs.</p> <p>In 2017/2018 Financial year, the company recovered Kshs. 326.8 million compared to the annual target of Kshs. 358.4. Million. This translates to 91.2% performance. We have seen an improvement in the recoveries by 8% in the subsequent Financial. The company has put emphasis on debt recovery and enhanced portfolio clean-up strategies;</p> <ul style="list-style-type: none"> ▪ The company has tightened the credit underwriting process through:- • Enhanced documentation and improved document verification process. • Segregation of duties to improve governance in Loan approval process (separation of Business Generation, Credit Analysis & Credit Risk Management) 	Business Development Manager/ Manager Risk Management (MRM)	Resolved	

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Ref No. on external Audit report	Issue/Observations from Auditor (2016/17 audit certificate issues)	Management comments	Focal Point person to resolve the issue	Status: (Resolved / Not Resolved)	Time frame :
		<ul style="list-style-type: none"> Effectively using Credit Reference Bureau checks to predict credit risk. Additionally adopted the credit scoring regime from CRBs that are predictive in nature. Emphasis on better, saleable securities as second way-outs in case of loan defaults. 			
5.0	<p>Poor Management of Projects: The Nairobi Incubation Centre</p> <p>In the year 2014/2015, a contract entered between the Company and a total contractor at a contract sum of Kshs. 296,858,878 for construction of Nairobi Incubation Centre was suspended by the contractor due to non-payment. During the financial year 2015/2016, no payments were done to the contractor despite the Company receiving development grants amounting to Kshs. 225,000,000 resulting to suspension of the project. As observed in the previous year, the Company risks paying huge penalties and interests besides likely loss due to delay in project completion.</p> <p>Audit was conducted in accordance with the International Supreme Audit Institutions (ISSAI's). I am Independent of the Kenya Industrial Estates Limited in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical</p>	<p>The delay in payment to Contractor for Nairobi Incubation Centre was as a result of budget cuts in 2015/16 financial year. The company budget was cut from Kshs 300 million to Kshs. 225 million hampering payment of the outstanding contract debt. The allocated amount in the financial year was channeled towards credit to SMEs. Kshs.150.0 Million was allocated in 2016/2017 Financial year to complete the project. The project is 99% complete with a timeline for completion as at 31st August 2018.</p>	IEDISM	Not Resolved	31/06/2019

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Ref No. on external Audit report	Issue/Observations from Auditor (2016/17 audit certificate issues)	Management comments	Focal Point person to resolve the issue	Status: (Resolved / Not Resolved)	Time frame :
	<p>responsibilities in accordance with ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis of my qualified opinion.</p> <p>Key Audit Matters</p> <p>Key audit matters are those matters, in my professional judgement were of most significance in the audit of financial statements. Except for the matters described in the Basis for Qualified Opinion and Emphasis of matter sections of my report, there were no other key audit matters to report in the current year under review.</p>				
	<p>Emphasis of matter Installation of Biometric System</p> <p>As similarly reported in the previous year, the Company on 23 November 2012 entered into a contract with a local firm at a sum of Kshs. 8,918,688 for the delivery, installation and commissioning of a biometric system. Further, the contracted company was to configure the access control software and all the required reports including attendance reports. However, though the works have been paid for and the system captured as office equipment, a visit to the head office and some branches revealed that the system may not be meeting its intended purpose as</p>	<ul style="list-style-type: none"> ▪ The company objective in installing the system was to monitor attendance and enhance security at different work stations. ▪ As financial institution customer visiting must access our offices with ease. ▪ The biometric access control system clearly monitors attendance for all staff. ▪ In our branches most of the staff are field staff and therefore other administrative controls to monitor staff attendance and exit. 	<p>Human Resource & Administration Manager (HRM)</p>	<p>Not Resolved</p>	<p>30/06/2018</p>

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Ref No. on external Audit report	Issue/Observations from Auditor (2016/17 audit certificate issues)	Management comments	Focal Point person to resolve the issue	Status: (Resolved / Not Resolved)	Time frame:

Pamain de Nantika

Managing Director.....

B. M. Muriu

Chairman of the Board.....

Date.....

Date.....

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XIX. APPENDIX 1: PROJECTS IMPLEMENTED BY KIE

The company is currently implementing one project which is Credit to Small and Medium Enterprises. This project is funded by GOK. The project implementation status is shown in the table below:

	Project	Total project Cost	Total expended to date	Completion % to date	Budget	Actual	Sources
1	Credit to SMES	3.35 Billion	795.0 Million	23.73%	300.0 Million	195.6 Million	GOK and Internally Generated resources

XX. APPENDIX 2: INTER-ENTITY TRANSFERS

ENTITY NAME:		KENYA INDUSTRIAL ESTATES LTD	
Break down of Transfers from the State Department of Investment and Industry			
FY 17/18			
a.	Recurrent Grants	Bank Statement Date	(KShs'000) 2017-2018
		01.09.2017	26,900
		13.02.2018	26,900
		07.02.2018	26,900
		26.06.2018	17,000
			97,700
b.	Development Grants	Bank Statement Date	(KShs'000) 2017-2018
		13.10.2017	31,250
		20.11.2017	31,250
		25.05.2018	40,144
		30.06.2018	93,750
			196,394